

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
DEPARTMENT OF CORRECTION  
FOR THE FISCAL YEARS ENDED  
JUNE 30, 2004 AND 2005*

**AUDITORS OF PUBLIC ACCOUNTS**

KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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# STATE OF CONNECTICUT



## AUDITORS OF PUBLIC ACCOUNTS

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March 22, 2007

### **AUDITORS' REPORT DEPARTMENT OF CORRECTION FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2005**

We have made an examination of the financial records of the Department of Correction for the fiscal years ended June 30, 2004 and 2005. 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 including the overall supervision and direction of all institutions, facilities and activities of the Department. Theresa C. Lantz continued to serve as Commissioner throughout the audited period.

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

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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

Correctional centers serve primarily as jails, acting as intake facilities for unsentenced males and for the confinement of males with shorter sentences. The Manson Youth Institution is used for confining male inmates between the ages of 14 and 21. The York Correctional Institution is used for sentenced and unsentenced female prisoners with all other Correctional Institutions generally incarcerating male inmates with sentences greater than two years.

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, 2005, was 18,150. During the 2003-2004 fiscal year, the Department discontinued contracting with out-of-State facilities to care for some 500 inmates. Total male and female inmate population as of June 30, 2005, was 16,734 and 1,416, respectively.

### **Board of Pardons:**

The Board of Pardons generally operated under the provisions of Section 18-24a through 18-30 of the General Statutes. The Board of Pardons operated as an autonomous body within the Department of Correction for administrative purposes only until August 20, 2003, when Public Act 03-06 amended Section 18-24a of the General Statutes transferring responsibility for the Board directly to the Department of Correction. Effective July 1, 2004, the Board of Pardons was eliminated by Public Act 04-234, which repealed Sections 18-24a through 18-30 of the General Statutes and merged its operations into a new Board called the Board of Pardons and Paroles which is further discussed below.

### **Board of Parole:**

The Board of Parole generally operated under the provisions of Section 54-124a of the General Statutes. Effective August 20, 2003, Public Act 03-04 amended Section 54-124a of the General Statutes establishing the Board within the Department of Correction. Effective July 1, 2004, the Board of Parole was eliminated by Public Act 04-234, which amended Section 54-124a of the General Statutes and created a new Board called the Board of Pardons and Paroles that is further discussed below.

### **Board of Pardons and Paroles:**

The Board of Pardons and Paroles was created on July 1, 2004, under the provisions of Public Act 04-234, which amended Section 54-124a of the General Statutes. Provisions of this Public Act transferred the former operations of the Board of Pardons and the Board of Parole from the Department of Correction to an autonomous body which is within the Department of Correction for administrative purposes only. This merger was made to provide greater independence and discretion over pardon and parole decisions. Under the provisions of this Act, the Department of Correction remains responsible for supervising parolees under the jurisdiction of the new Board. The Board consists of thirteen members appointed by the Governor with the advice and consent of either house of the General Assembly.

## **RÉSUMÉ OF OPERATIONS:**

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

On July 1, 2004, a new State accounting system, Core-CT, was implemented. This also included the transfer of accounting for Federal and other restricted funds from restricted accounts within the General Fund to a newly established Special Revenue Fund entitled “Federal and Other Restricted Accounts”. As a result, Federal and other restricted account activity are no longer included as part of the General Fund below and are discussed under the caption of “Federal and Other Restricted Accounts” Special Revenue Fund included in this report.

General Fund receipts of the Department of Correction for the audited period were as follows:

	<b><u>Fiscal Year Ended June 30,</u></b>	
	<b><u>2004</u></b>	<b><u>2005</u></b>
Board of inmates in jail	\$9,594,034	\$5,932,516
Recovery – inmates cost of incarceration	1,316,190	1,549,586
Child nutrition program	1,140,478	975,495
Refunds expenditures – prior years	816,214	932,934
Other miscellaneous fees	359,200	382,600
Sales and use tax – State agencies		324,802
All other revenue	<u>108,610</u>	<u>113,941</u>
<b>Total Revenues and Receipts</b>	<b><u>\$13,334,726</u></b>	<b><u>\$10,211,874</u></b>

General Fund receipts decreased by \$3,122,851 during the 2004-2005 fiscal year. This decrease was primarily due to a decrease of \$3,661,518 in recoveries for board of inmates that are in jail which was offset in part by a \$233,396 increase in recoveries of inmates cost of incarceration and a change in accounting that resulted in \$324,802 in sales and use tax being recorded as Agency receipts for the first time. Board of inmates in jail revenue consisted primarily of reimbursement for the care of detainees of the Department of Homeland Security, Immigration and Customs Enforcement (ICE). Decreases in board of inmates in jail revenue were primarily due to fewer days of care that were needed for detainees of ICE.

### **General Fund Expenditures:**

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

	<b><u>Fiscal Year Ended June 30,</u></b>	
	<b><u>2004</u></b>	<b><u>2005</u></b>
Personal services	\$359,356,968	\$375,389,973
Contractual services – Medical fees	77,499,935	82,362,512
Contractual services – All other	67,951,689	68,204,240
Commodities – Food	13,904,362	14,561,883
Commodities – All other	9,548,635	10,521,953
Workers' Compensation	21,005,928	22,492,222
Sundry	3,323,734	6,000
Equipment	99,843	302,922
<b>Total Budgeted Accounts</b>	<b><u>\$552,691,094</u></b>	<b><u>\$573,841,705</u></b>

Budgeted account expenditures increased by \$21,896,869 and \$21,150,611 during the fiscal years ended June 30, 2004 and 2005, respectively. Personal services and contractual services–medical fees account for the majority of budgeted account expenditure increases.

Personal services increases of \$19,434,218 and \$16,033,005 during the respective audited fiscal years were due to annual salary increases and increases in staffing levels. Staffing levels increased from 6,194 full-time positions at July 1, 2003, to 6,344 positions at June 30, 2004, and to 6,424 positions at June 30, 2005. Increases in staffing levels during the 2003-2004 fiscal year were primarily attributable to hiring new staff that was lost due to early retirements and layoffs caused by State fiscal and budgetary constraints during the 2002-2003 fiscal year. Staffing level increases during the 2004-2005 fiscal year included additional staff needed as a result of discontinuing usage of out-of-State contracted facilities to care for some 500 inmates.

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 \$9,165,225 and \$4,862,577 during the respective audited fiscal years due to several factors. These included 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.

Sundry costs decreased by \$3,317,734 in the fiscal year ended June 30, 2005 primarily as a result of discontinuing transfers to the Judicial Department made as reimbursement for community service program costs provided to the Board of Parole. Effective July 1, 2004, the Department began contracting directly with private providers for these programs and recorded these expenditures as contractual services.

**Federal and Other Restricted Accounts Special Revenue Fund:**

As previously explained, beginning with the 2003-2004 fiscal year, Federal and other restricted funds are accounted for within a newly established Special Revenue Fund. Federal and other restricted account receipts for the fiscal year ended June 30, 2004 and 2005, were as follows:

	<b>2003 – 2004</b>	<b>2004 – 2005</b>
Federal	\$ 4,255,994	\$ 4,295,632
Other than Federal	<u>1,640,517</u>	<u>884,244</u>
<b>Total Receipts</b>	<b><u>\$ 5,896,511</u></b>	<b><u>\$ 5,179,876</u></b>

Expenditures from Federal and other restricted accounts for the fiscal year ended June 30, 2004 and 2005, are presented below:

	<b>For The Fiscal Year Ended June 30</b>					
	<b>2004</b>			<b>2005</b>		
	<b>Total</b>	<b>Federal</b>	<b>Other</b>	<b>Total</b>	<b>Federal</b>	<b>Other</b>
Personal Services	\$1,702,642	\$1,494,285	\$208,357	\$1,977,036	\$1,752,808	\$ 224,228
Contractual services	798,272	606,379	191,893	1,273,601	1,025,429	248,172
Commodities	565,622	132,280	433,342	800,124	214,562	585,562
Fringe benefits	386,986	378,585	8,401	822,522	811,634	10,888
Sundry	298,491	207,321	91,170	677,209	596,648	80,561
Equipment	<u>131,863</u>	<u>123,378</u>	<u>8,485</u>	<u>58,255</u>	<u>36,342</u>	<u>21,913</u>
<b>Total</b>	<b><u>\$3,883,876</u></b>	<b><u>\$2,942,228</u></b>	<b><u>\$941,648</u></b>	<b><u>\$5,608,747</u></b>	<b><u>\$4,437,423</u></b>	<b><u>\$1,171,324</u></b>

Federal grant activity was responsible for a large portion of the \$1,724,872 increase in expenditures during the 2004-2005 fiscal year. Increases in Federal grant activity were about equally attributable to increased activity in education grants and violent offender programs.

**Other Special Revenue Funds:**

Special Revenue Fund expenditures, excluding “Federal and other restricted accounts”, totaled \$2,115,291 and \$2,582,589 for the 2003-2004 and 2004-2005 fiscal years, respectively. This includes expenditures totaling \$998,501 and \$235,804 for renovation projects, and equipment purchases through the Capital Equipment Purchases Fund totaling \$1,116,790 and \$2,346,785 during the respective audited years.

**Correctional Industries Fund:**

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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 and 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, 2003</b>	<b>\$ 1,172,952</b>	<b>\$ 4,400,799</b>	<b>\$ 5,573,751</b>
Receipts	5,826,096	12,609,738	18,435,834
Disbursements	<u>5,692,090</u>	<u>12,246,239</u>	<u>17,938,329</u>
<b>Cash Balance, June 30, 2004</b>	<b>1,306,958</b>	<b>4,764,298</b>	<b>6,071,256</b>
Receipts	6,375,107	12,571,484	18,946,591
Disbursements	<u>5,673,355</u>	<u>12,409,717</u>	<u>18,083,072</u>
<b>Cash Balance, June 30, 2005</b>	<b><u>\$ 2,008,710</u></b>	<b><u>\$ 4,926,065</u></b>	<b><u>\$ 6,934,775</u></b>

Cash receipts increases of \$510,757 during the 2004-2005 were primarily due to increased sales activity of CEC operations that were funded in part by inventory reductions. Commissary receipt and disbursement activity remained relatively level during the audited period.

### **Per Capita Costs:**

The weighted average daily per capita cost for the operation of correctional facilities, as calculated by the State Comptroller for the 2003-2004 fiscal year was \$104. The cost for the 2004-2005 fiscal year was \$114.

### **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, 2005, totaled \$2,170,896 for the Inmates' Fund and \$93,556 for the Special Projects Activity Fund.

## 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.

*Condition:* Testing of 20 cash receipt transactions for the Inmate Trust Fund disclosed that four deposits, totaling \$675, were deposited between one and six days late.

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

*Cause:* Cash receipts were not always processed in a timely manner.

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

*Agency Response:* “The four late deposits were noted among money orders sent to the Department for deposit to inmate’s accounts. Department Administrative Directives requires that we return money orders to senders who are not on an offender’s approved visitor list. Inmate Trust staff had developed an ad hoc practice of holding such money orders to allow for the possibility that the sender’s name would subsequently be added to the visitor list. This allowed for deposit of funds, avoiding the return process and a likely loss to the sender. This also resulted in delayed deposits.

Use of the Comptroller’s pending receipt process to allow for subsequent changes in the visitors list would be inappropriate for the Inmate Trust fiduciary fund. However the Department will explore the feasibility of establishing a suspense inmate account to provide for such a process.”

**Federal Reimbursements – Inmate Care:**

*Criteria:* The Department receives reimbursement for the care of detainees of the United States Department of Homeland Security, Immigration and Customs Enforcement (ICE); formerly the Department of Justice, Immigrations and Naturalization Service. An agreement is in place that includes the following:

1. That the reimbursement rate for services can be renegotiated annually.
2. Extraordinary hospital or health care services that are provided for detainees outside of the Department's facilities can be billed for reimbursement within sixty days after such services are provided.

*Conditions:* A review of ICE contract reimbursements noted the following:

1. The Department has not actively pursued rate reimbursement increases. Since the inception of the agreement in August 1995, February 2004 was the first time the Department applied for a rate adjustment.
2. The Department does not have a procedure to identify non-routine medical care provided to ICE inmates that may be billable for Federal reimbursement.

*Effects:*

1. By not periodically pursuing rate increases, the Department has forgone the chance to increase revenues.
2. By not identifying extraordinary medical costs for ICE inmates, the Department potentially risks that these medical costs will not be billed if incurred.

*Causes:*

1. Increases in reimbursement rates were not pursued in a timely manner.
2. Non-routine medical costs were not identified for ICE inmates.

*Recommendation:* The Department of Correction should improve procedures over Federal reimbursement received for inmate care. (See Recommendation 2.)

*Agency Response:* “1. Regarding: Increases in reimbursement rates were not pursued in a timely manner:  
Changes in the evaluation procedures at the Federal level have added significant delays and work requirements to the rate request process.

In early July 2002 the Department submitted a rate increase request based on 2001 expenses to the United States Marshals Service (USMS). We expected the new rate to support updates

with both ICE and the Federal Bureau of Prisons (BOP), based on past practice. USMS did not approve the request rate until January 2004. Within a month DOC requested that ICE accept the rate approved by USMS, but we were advised that a new, full request process was required. We submitted the new request in March 2004. ICE responded seven months later that their process now required an audit. The audit team arrived five months later, in January 2005. The auditors issued a preliminary report ten months later, to which DOC responded within six weeks. Our response noted significant errors in the findings; a final report has not been issued and ICE still has not made a determination about a new rate.

2. Regarding: Non-routine medical costs were not identified for ICE inmates:

The Department of Correction contracts with the University of Connecticut Health Center, Correctional Managed Health Care (CMHC) for the delivery of both routine and non-routine medical services to inmates. We have relied on CMHC to identify and forward appropriate medical documentation for non-routine medical services performed on ICE inmates. During the audit period we received and billed ICE a total of \$10,090 for non-routine medical charges with dates of service from April 2002 to December 2004. We have asked CMHC to audit their records to identify any applicable charges from December 2004 to present. A verbal request and response for such an audit took place in FY 2006: no applicable charges were identified. We have also requested that CMHC review their billing procedure processes to meet the 60-day deadline imposed in the Intergovernmental Service Agreement. The Department will formalize the process to reduce the risk of missed billings.”

### **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 inmate’s 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 which require that ten percent 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 3.)

*Agency Response:* “An amendment to existing regulations was initiated on April 21, 2006, proposing that ten percent deductions accumulate in a discharge savings account of up to \$500 for each inmate, prior to being deposited to the General Fund revenue account for assessed cost of incarceration. The amendment was rejected on June 26, 2006, as unsupported by the original legislation.

The Department is finalizing an amended regulation that excludes the concept of a discharge savings account, but addresses a second issue regarding exemption of certain inmate earnings.

The Department also submitted a Legislative Proposal on October 2, 2006, to amend Section 18-85a-4 of the State Regulations to allow for establishment of discharge savings accounts. If this proposal is successful an amendment to the regulation will be required to implement the accounts.”

### **Inmate Payroll Time Records:**

*Criteria:* The DOC Administrative Directive 10.1, Inmate Assignment and Pay Plan, requires that inmate compensation be based on daily attendance and hours worked. Agency procedures provide that inmate workers must “punch in” and “punch out” for hours worked. The minimum record retention requirement for employee time sheets and cards under the State Agency Records Retention Schedule S3 is three years or until audited, whichever comes later.

*Condition:* A test check of Correctional Industries payroll payments made during the audited period disclosed that time cards were not retained for inmate workers at the Cheshire facility, as required by record retention requirements.

- Effect:* Documentation to support daily attendance and hours worked was lacking and the discarding of timecards is a violation of State records retention policies.
- Cause:* Inmate time records were discarded in violation of established record retention policies.
- Recommendation:* Correctional Industries should retain inmate time records at its Cheshire operating location in accordance with State records retention policies. (See Recommendation 4.)
- Agency Response:* “The Department acknowledges that these records were not kept in accordance with Records Retention. The Director of Correctional Enterprises has notified each manager that all records including payroll time sheets and cards must be retained in accordance with the record retention policies. The Director also sent out a copy of the Records Retention Policy to all managers.”

**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.
- Condition:* As noted in a finding in the prior audit report, Correctional Enterprises of Connecticut for many years has not removed equipment disposals from fixed asset records that are used to prepare financial statements.
- Effect:* The inclusion of disposed equipment on property control records results in overstatement of ownership of equipment on Agency financial statements. Since many of the equipment disposals were fully depreciated they had a net book value of zero.
- Cause:* Staff changes in the CEC accounting unit contributed to delays in implementing corrective action to eliminate disposed equipment from financial records.
- Recommendation:* Correctional Enterprises of Connecticut fixed asset records should be adjusted to reflect actual balances of equipment owned. (See Recommendation 5.)
- Agency Response:* “The Department acknowledges that that the Correctional Enterprises fixed assets should be adjusted and accounting journal entries

processed to remove disposed equipment from the property control records. The Department will ensure that proper resources are deployed to update the records. We also note that the disposed equipment was fully depreciated and that there is no impact to the net worth as reported on the Balance Sheet, or impact to depreciation expense on the Operating Income Statements.”

**Documentation of Education and Training:**

*Criteria:* Sound business practice requires complete documentation of expenditures including verification that the services were received. Also, Agency procedures for reimbursement of the cost of training require employees completing training to provide proof of attendance.

*Condition:* A test of travel authorizations for education and training disclosed that nine out of 19 payments were not supported by proof of attendance.

*Effect:* 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.

*Cause:* The Agency did not always follow its procedures for documenting continuing education.

*Recommendation:* The Department of Correction should ensure that payments for training courses, conferences or seminars are documented by proof of attendance. (See Recommendation 6.)

*Agency Response:* “The Department’s practice has been to require proof of attendance when State or Union funds were being used to pay for travel or workshops. Department policy was unclear, however, regarding travel for which there was no cost and as a result documentation was not requested in seven of the cited occasions. Questions also arose as to the requirement for conferences or events where documentation such as continuing education credits was not routinely provided or expected. Finally, administration of Travel Authorizations and documentation changed hands a number of times in the audit period, contributing to inconsistent policy interpretation. The Department will review its policy as to when documentation must be provided, and establish guidelines to provide for consistent application of the policy.”

**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. Information not updated on cost accounting worksheets included cost data on material and labor, and prevailing market prices of products produced.

*Effect:* Without the proper maintenance of cost information, management oversight over costs, and pricing of CEC’s products and services is weakened.

*Cause:* Information was not periodically updated on cost accounting worksheets by CEC’s management.

*Recommendation:* The maintenance of cost accounting information on the 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 7.)

*Agency Response:* “Fiscal Services and CEC Management have recently succeeded in devising a CORE EPM report to provide CEC with some of the necessary information regarding manufacturing and service cost. Lack of network access prevents use of CORE-based inventory management; however we intend to develop stand-alone processes to support effective pricing.

CEC management has established a process for performing market price comparisons and new sale pricing is now in effect in three shops; Clothing and Textile, Printing and Office Seating. All other shops and products will be reviewed and adjusted as needed.”

## RECOMMENDATIONS

Our prior report on the Department of Correction contained six recommendations. Of these recommendations, one has been implemented or otherwise resolved and five have been repeated herein. As a result of our current examination, we have included two new recommendations concerning Federal reimbursements received for inmate care and record retention of inmate payroll time records. The status of the prior recommendations is presented below:

- *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* – Improvements were made in the handling of Café 24 cash receipts, however, late deposits were again encountered for Inmate Fund operations. As a result, the recommendation is being repeated for Inmate Fund operations. (See Recommendation 1.)
- *The Department of Correction should take appropriate action to comply with or amend regulations regarding the recovery of incarceration costs from inmates* – 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. As a result, the recommendation is being repeated. (See Recommendation 3.)
- *Controls over Commissary inmates' payroll should be improved* – Controls over Commissary inmates' payroll were improved so this recommendation is not being repeated.
- *Inventory controls should be strengthened to ensure that assets are properly recorded and safeguarded* – The Agency has strengthened property controls, however, equipment disposals and other adjustments have not been updated on financial records maintained by the Correctional Enterprises of Connecticut. As a result, this recommendation is being repeated, in part, for property control weaknesses pertaining to operations of the Correctional Enterprises of Connecticut. (See Recommendation 5.)
- *The Department of Correction should ensure that payments for training courses, conferences or seminars are documented by proof of attendance* – Weaknesses in obtaining proof of attendance continue to occur so the recommendation is being repeated. (See Recommendation 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* – Weaknesses in the maintenance of cost and pricing information continue to exist so this recommendation is being repeated. (See Recommendation 7.)

*Current Audit Recommendations:*

- 1. The Department of Correction should ensure that 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 improve procedures over Federal reimbursement received for inmate care.**

Comment:

A review of reimbursements received for the care of detainees of the United States Department of Homeland Security, Immigration and Custom Enforcement noted that periodic rate increases were not actively pursued and that extraordinary medical costs for potential reimbursement were not being identified.

- 3. 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 that ten percent be deducted from inmates' accounts receipts for the recovery of the costs of incarceration.

- 4. Correctional Industries should retain inmate time records at its Cheshire operating location in accordance with State records retention policies.**

Comment:

Time cards were not retained for Correctional Industries inmates working at the Cheshire facility.

- 5. Correctional Enterprises of Connecticut fixed asset records should be adjusted to reflect actual balances of equipment owned.**

Comment:

Correctional Enterprise equipment inventory records were not adjusted for disposed equipment.

- 6. 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.

- 7. The maintenance of cost accounting information on the 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, 2004 and 2005. 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, 2004 and 2005, 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 controls 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's 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, 2004 and 2005, 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 under *Government Auditing Standards*. However, we did noted certain immaterial or less that significant instance of noncompliance, which are described in the accompanying "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 controls 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 controls 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 controls 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 Federal reimbursements for inmate care and the lack of documentation for inmate pay records are 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 controls 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