

Department of Correction

**For the Years Ended
June 30, 1996, and June 30, 1995**

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October 24, 1997

The Honorable Don Sundquist, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable Donal Campbell, Commissioner
Department of Correction
Fourth Floor, Rachel Jackson Building
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Correction for the years ended June 30, 1996, and June 30, 1995.

We conducted our audit in accordance with generally accepted government auditing standards. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Department of Correction's compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Department of Correction is responsible for establishing and maintaining the internal control structure and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal controls and/or instances of noncompliance to the Department of Correction's management in a separate letter.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/tp
97/074

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Department of Correction
For the Years Ended June 30, 1996, and June 30, 1995

AUDIT SCOPE

We have audited the Department of Correction for the period July 1, 1994, through June 30, 1996. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of inventories, maintenance benefits, major maintenance, Tennessee Rehabilitative Initiative in Correction (TRICOR), overtime, and compliance with the Financial Integrity Act. The audit was conducted in accordance with generally accepted government auditing standards.

AUDIT FINDINGS

Adequate Controls Over the Perpetual Inventory Recordkeeping System Were Not Implemented Consistently*

The Department of Correction has not ensured the uniform implementation of adequate controls over warehouse perpetual inventory records throughout the correctional facilities (page 3).

TRICOR Quarterly Profit and Loss Statements Have Not Been Sent to the Designated Officials in Accordance With State Law

TRICOR management has not provided the quarterly profit and loss statements of TRICOR operations to the Comptroller of the Treasury or the Commissioner of Finance and Administration in accordance with Section 41-22-123(b), *Tennessee Code Annotated* (page 7).

The Department's Financial Integrity Act Report Was Not Submitted on Time

The Department has filed its Financial Integrity Act report late for the past two years. State law requires that the report be filed by December 31 of each year. The report due December 31, 1995, was dated February 28, 1996, and was not received by the Comptroller's office until March 11, 1996. The report due December 31, 1996, was dated May 21, 1997, and was received by the Comptroller's office on the same date (page 8).

SPECIAL INVESTIGATION

An investigation of alleged improper activities by staff and inmates at the Nashville TRICOR garage is currently ongoing and a separate report will be issued.

* This finding is repeated from prior audits.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
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Audit Report
Department of Correction
For the Years Ended June 30, 1996, and June 30, 1995

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Department of Correction
For the Years Ended June 30, 1996, and June 30, 1995

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Correction. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The mission of the Department of Correction is to supervise convicted offenders by implementing correctional practices which contribute to the effectiveness of the criminal justice system.

An organization chart of the department is on the following page.

AUDIT SCOPE

We have audited the Department of Correction for the period July 1, 1994, through June 30, 1996. Our audit scope included a review of management’s controls and compliance with policies, procedures, laws, and regulations in the areas of inventories, major maintenance, Tennessee Rehabilitative Initiative in Correction (TRICOR), overtime, and compliance with the Financial Integrity Act. The audit was conducted in accordance with generally accepted government auditing standards.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

INVENTORIES

The objectives of our review of the inventories controls and procedures in the Department of Correction were to determine whether

- the inventory recorded represents a complete listing of material and supplies owned by the state unit and such assets are physically on hand, in transit, in storage, or on consignment, and
- the perpetual inventory records are promptly updated for changes in the physical inventory.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over inventories. We also reviewed supporting documentation for these procedures and controls. In addition, testwork was performed on nonstatistical samples of inventory items.

We determined that adequate controls over the perpetual inventory recordkeeping system were not implemented consistently, as discussed in finding 1.

1. **Adequate controls over the perpetual inventory recordkeeping system were not implemented consistently**

Finding

As noted in the seven previous audits covering the period July 1, 1978, through June 30, 1994, the Department of Correction has not ensured the uniform implementation of adequate controls over warehouse perpetual inventory records throughout the correctional facilities. Test counts at the Lois DeBerry Special Needs Facility, Tennessee Prison for Women, Turney Center Industrial Prison and Farm, West Tennessee High Security Facility, Brushy Mountain State Penitentiary, and Riverbend Maximum Security Institution did not agree with the perpetual inventory records for 106 of 300 inventory items tested (35.3%). Sixty-nine of the 106 variances (65.1%) were in excess of 8%. According to the facilities' perpetual inventory records, the total value of the test-counted items was \$326,555.85. However, auditor test counts of these items at these facilities disclosed \$12,361.28 (3.8%) less than was indicated on the perpetual inventory records.

There is a marked lack of uniformity in the test count results among the facilities visited. There appears to be a direct correlation between the level of involvement of the warehouse manager and facility fiscal officer and the consistency of control implementation. The following are the results by institution (from best to worst, evaluated on the number of variances):

<u>Facility</u>	<u>Number of Items Tested</u>	<u>Number of Variances</u>	<u>Percentage of Variances</u>	<u>Number of Variances >8%</u>	<u>Percentage of Variances >8%</u>
West Tennessee High Security Facility	50	0	0%	0	0%
Brushy Mountain State Penitentiary	50	7	14%	2	4%
Riverbend Maximum Security Institution	50	12	24%	5	10%
Tennessee Prison for Women	50	13	26%	9	18%
Turney Center Industrial Prison and Farm	50	28	56%	13	26%
Lois DeBerry Special Needs Facility	<u>50</u>	<u>46</u>	92%	<u>40</u>	80%
Total:	<u>300</u>	<u>106</u>	<u>35.3%</u>	<u>69</u>	<u>23%</u>

<u>Facility</u>	<u>Total Inventory Per Perpetual Inventory</u>	<u>Dollar Value Tested</u>	<u>Dollar Variances</u>	<u>Percent Dollar Variance</u>
West Tennessee High Security Facility	\$ 144,211.06	\$ 49,065.11	\$ 0.00	0.00%
Brushy Mountain State Penitentiary	277,652.37	67,666.34	(364.36)	-0.54%
Riverbend Maximum Security Institution	188,561.82	52,885.75	596.41	1.13%
Tennessee Prison for Women	146,222.18	38,294.04	(170.80)	-0.45%
Turney Center Industrial Prison and Farm	291,429.22	58,250.00	3,051.02	5.24%
Lois DeBerry Special Needs Facility	<u>200,662.21</u>	<u>60,394.61</u>	<u>9,249.01</u>	15.31%
Total:	<u>\$1,248,738.86</u>	<u>\$326,555.85</u>	<u>\$12,361.28</u>	<u>3.79%</u>

Management concurred with the prior finding and stated, “New warehouse and inventory procedure policies should be issued within the next six months. The new inventory procedures have been implemented in all our institutions.” However, the Tennessee Prison for Women and the Lois DeBerry Special Needs Facility were the only facilities visited by the auditors that had implemented these procedures at the time of this audit.

The department did not issue written procedures or implement changes on a system-wide basis to address the problems in inventory recordkeeping noted in the prior seven audits. The pilot system developed by the department simplified inventory transaction recording, but it did not place any additional controls on recording. Lack of control over recording is evidenced by the fact that the two facilities that had fully implemented the pilot system continued to have significant variations when subjected to test counts. The failure of the warehouse managers and facility fiscal

officers to provide sufficient supervision of staff and basic controls over inventory appears to be the cause of the problems.

A policy has been developed by the department and was published and effective as of June 1, 1997. This policy is comprehensive and requires controls that, if implemented, would address the weaknesses noted.

Recommendation

The warehouse managers and fiscal officers at the correctional facilities should ensure that the Tennessee Department of Correction *Administrative Policies and Procedures*, Index # 210.01, "Warehouse Operation," is fully implemented.

Management's Comment

We concur. Our warehouse operation policy #210.01 went into effect on June 1, 1997. Our institutions are in the process of implementing these new procedures. In addition, we have a training meeting scheduled in November 1997 with the Fiscal Officers and Warehouse managers to discuss this policy in-depth. This meeting will eliminate any misunderstanding that our employees may have with this policy and will allow us to change the policy as we deem necessary.

As our Internal Audit section performs their audits and issue the reports, we are holding the Warden and administration staff accountable. These employees will come to Nashville to meet with appropriate Central Office staff to discuss any of the findings concerning the warehouse operations.

MAJOR MAINTENANCE

The objectives of our review of the major maintenance controls and procedures in the Department of Correction were to determine whether

- major maintenance account expenditures were for goods or services authorized and received,
- major maintenance account expenditures were in accordance with proper bidding procedures, and
- major maintenance account expenditures using emergency purchases were in compliance with regulations in the General Services' Purchasing Procedures Manual.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over major maintenance. We also reviewed supporting documentation for these procedures and controls. In addition, testwork was performed on nonstatistical samples of major maintenance expenditures. We had no findings related to major maintenance.

TENNESSEE REHABILITATIVE INITIATIVE IN CORRECTION (TRICOR)

The objectives of our review of the Tennessee Rehabilitative Initiative In Correction (TRICOR) controls and procedures in the Department of Correction were to determine whether

- the cost accounting system accurately accumulates manufacturing costs by job,
- management has provided quarterly profit and loss statements of the operation of prison industries to the Comptroller of the Treasury and to the Commissioner of Finance and Administration as required by Section 41-22-123 (b), *Tennessee Code Annotated*,
- raw material inventory records at the production facilities represent a complete listing of raw materials physically on hand,
- finished goods inventory records at the central warehouse facility represent a complete listing of the goods physically on hand,
- farm records represent a complete listing of animals (breeding, production, and held for sale) and crops (growing and held for sale),
- equipment is properly recorded, properly safeguarded, and can be physically located,
- sales orders are adequately tracked to ensure that customers receive their orders in a timely manner, and
- customers are billed in an accurate and timely manner.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over TRICOR. We also reviewed supporting documentation for these procedures and controls, and performed testwork on nonstatistical samples of TRICOR transactions. We determined that TRICOR management has not provided the quarterly profit and loss statements required by Section 41-22-123(b), *Tennessee Code Annotated*, as discussed in finding 2. In addition to the finding, other minor weaknesses came to our attention which have been reported to management in a separate letter. Furthermore, an investigation of alleged improper activities by staff and inmates at the Nashville TRICOR garage is currently ongoing and a separate report will be issued.

2. **The TRICOR quarterly profit and loss statements have not been sent to the designated officials in accordance with state law**

Finding

TRICOR management has not provided the quarterly profit and loss statements of TRICOR operations to the Comptroller of the Treasury or the Commissioner of Finance and Administration in accordance with state law. Section 41-22-123(b), *Tennessee Code Annotated*, states

A profit and loss statement of the operation of prison industries shall be prepared quarterly, within the month following the end of the quarter, and a copy of this statement, certified by the fiscal officer of prison industries, shall be sent to the comptroller of the treasury and to the commissioner of finance and administration.

Representatives of TRICOR indicated that the required information was available and would be properly submitted in the future.

Recommendation

TRICOR management should ensure that the quarterly profit and loss statements of its operations are properly prepared, certified by the fiscal officer, and submitted to the Comptroller of the Treasury and to the Commissioner of Finance and Administration in accordance with *Tennessee Code Annotated*.

Management's Comment

Department of Correction

As of July 1, 1994, TRICOR's management responsibility lies with the Tennessee Rehabilitation and Industrial Labor (TRAIL) Board.

TRICOR

We concur. TRICOR management will begin submitting quarterly profit and loss statements, certified by the Fiscal Officer, to the Comptroller of the Treasury and to the Commissioner of Finance and Administration in accordance with *Tennessee Code Annotated*.

OVERTIME

The objectives of our review of the overtime controls and procedures in the Department of Correction were to determine whether

- overtime was properly approved and accrued, and
- overtime was properly calculated.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over overtime. We also reviewed supporting documentation for these procedures and controls. In addition, testwork was performed on nonstatistical samples of overtime paid during the audit period. We had no findings related to overtime; however, one minor weakness came to our attention which has been reported to management in a separate letter.

FINANCIAL INTEGRITY ACT

The objectives of our review of the Financial Integrity Act controls and procedures in the Department of Correction were to determine whether

- the reports for compliance with the Financial Integrity Act of 1983 were properly filed,
- the procedures used in compiling information for the report are adequate, and
- corrective actions have been implemented for weaknesses noted in the reports.

We interviewed key department personnel to gain an understanding of the department's procedures used in compiling information for the Financial Integrity Act report. We also reviewed supporting documentation for these procedures.

We determined that the department's financial integrity act report was not submitted on time, as discussed in finding 3.

3. The department's Financial Integrity Act report was not submitted on time

Finding

For the past two years, the Department of Correction has not filed its Financial Integrity Act report in a timely manner. Section 9-18-104, *Tennessee Code Annotated*, stipulates:

By December 31 of each year, the head of each executive agency shall . . . prepare and transmit to the commissioner of finance and administration and the comptroller of the treasury a report which states that:

- (1) The agency's systems of internal accounting and administrative control fully comply with the requirements specified in this chapter; or
- (2) The agency's systems of internal accounting and administrative control do not fully comply with such requirements.

The report due December 31, 1995, was dated February 28, 1996, and was not received by the Comptroller's office until March 11, 1996. The report due December 31, 1996, was dated May 21, 1997, and was received by the Comptroller's office on the same date.

Recommendation

The Department of Correction should submit its Financial Integrity Act report to the Commissioner of Finance and Administration and the Comptroller of the Treasury by December 31 of each year.

Management's Comment

We concur. The Department of Correction will have the Financial Integrity Act report to the Commissioner of Finance and Administration and the Comptroller of the Treasury by December 31. The Wardens, Directors, and Superintendent will be notified in an appropriate time frame as to allow for Central Office to prepare the report by the due date.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Correction filed its report with the Department of Audit on June 24, 1996. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the Department of Correction has corrected previous audit findings concerning inadequate pharmacy inventory procedures and improving the cost accounting system for the Tennessee Rehabilitative Initiative in Correction (TRICOR).

REPEATED AUDIT FINDING

The prior audit report also contained a finding concerning implementing and improving controls over inventories. This finding has not been resolved and is repeated in the inventories section of this report.

PAST FINDING NOT ACTED UPON BY MANAGEMENT

Prior audits of the Department of Correction have contained a finding about the department's providing maintenance benefits without apparent authority to do so. Some employees of the department, including the Commissioner and the Assistant Commissioner of Administration, reside on state property and are either furnished utilities without cost or pay only a nominal charge. Section 8-23-201(b), *Tennessee Code Annotated*, states:

State officers and employees subject to appointment by the department of personnel shall be provided maintenance, including but not limited to, housing and meals, only under policies prepared by the commissioner of finance and administration in consultation with the commissioner of personnel, the comptroller of the treasury, and the attorney general and reporter.

However, since a statewide maintenance policy has not yet been approved, the provision of housing and utilities to employees appears to violate state law. This is particularly true since these situations were not presented for approval to the Commissioner of the Department of Finance and Administration who has the primary responsibility in consultation with the Commissioner of Personnel, the Comptroller of the Treasury, and the Attorney General to make such policies.

These benefits have not been reported to the Internal Revenue Service. According to the *Internal Revenue Code*, lodging provided by an employer can be excluded from gross income only if the lodging is provided for the convenience of the employer, is a condition of employment, and is on the business premises. Otherwise, the value of the housing is considered taxable income of the employee. For employees paying less than fair market value for the housing, taxable income would be the difference between the amount they pay and the fair market value.

Because there has been no approval by the Commissioner of Finance and Administration, there has been no determination that these benefits are necessary for the convenience of the state or are a condition of employment as required by the *Internal Revenue Code*.

The department has not provided written justification why these benefits meet the *Internal Revenue Code* criteria for nontaxable income. The failure to report or to document the purpose of these benefits exposes the state and its employees to a potential tax liability.

The Department of Finance and Administration has not promulgated a statewide policy as required by law, and the Department of Correction has not implemented a departmental policy regarding maintenance benefits for employees. Moreover, the Department of Correction has apparently allowed the management at each correctional facility to determine who will receive maintenance benefits at their facilities.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Tennessee Code Annotated, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. For the year ended June 30, 1996, the Department of Correction filed its compliance report and implementation plan on June 28, 1996, and for the year ended June 30, 1995, on June 30, 1995.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

The State Planning Office in the Executive Department was assigned the responsibility of serving as the monitoring agency for Title VI compliance, and copies of the required reports were filed with the State Planning Office for evaluation and comment. However, the State Planning Office has been abolished. The Office of the Governor is currently evaluating which office in the Executive Branch will be the new monitoring agency.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report, *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

APPENDIX

DIVISIONS AND ALLOTMENT CODES

Department of Correction divisions and allotment codes:

329.01	Division of Administration
329.02	Adult Probation
329.03	State Prosecutions (abolished fiscal year 1997)
329.04	State Prosecutions
329.05	Knoxville Community Service Center
329.06	Tennessee Correction Academy
329.07	Nashville Community Service Center
329.08	Wayne County Boot Camp
329.09	Chattanooga Community Service Center
329.11	Brushy Mountain State Penitentiary
329.12	Cold Creek Correctional Facility
329.13	Tennessee Prison for Women
329.14	Turney Center
329.16	Mark Luttrell Reception Center
329.17	Middle Tennessee Reception Center
329.18	Southeastern Tennessee State Regional Correctional Facility
329.19	Morgan County Regional Correctional Facility
329.20	Tennessee Correctional Work Center
329.30	TRICOR
329.32	Major Maintenance
329.38	Community Corrections
329.39	Carter County Work Camp
329.40	Lake County Regional Correctional Facility
329.41	West Tennessee High Security Facility
329.42	Riverbend Maximum Security Facility
329.43	Northeast Correctional Center
329.44	South Central Correction Center
329.45	Northwest Correctional Center
329.46	Lois M. DeBerry Special Needs Facility
329.99	1985 Sentencing Act

