

CORRECTIONAL ENTERPRISES OF TENNESSEE

**INTENTIONAL OVERPAYMENTS TO INMATES
BY AN INDUSTRIAL OPERATIONS MANAGER**

FEBRUARY 1996

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February 26, 1996

The Honorable Don Sundquist, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

Mr. Douglas E. Jones, Chairman
Tennessee Rehabilitation and Inmate Labor Board
First Floor, Rachel Jackson Building
320 Sixth Avenue North
Nashville, Tennessee 37243-0465

Ladies and Gentlemen:

Transmitted herewith is a special report on our review of allegations concerning Mr. Wayne Morris, an Industrial Operations Manager for Correctional Enterprises of Tennessee (CET) now named Tennessee Rehabilitative Initiative in Correction (TRICOR). According to the allegations, (1) Mr. Morris instructed an inmate payroll clerk at the Turney Center Industrial Prison and Farm wood plant to understate production hours and overstate nonstandard hours so that inmates would be compensated at a higher wage; (2) Mr. Morris instructed a supervisor to continue recording an inmate as working after the inmate no longer worked for CET; and (3) CET did not reject inferior component parts it received from its suppliers.

Our review of the first two allegations determined that Mr. Morris' actions resulted in overpayments between December 26, 1994, and June 25, 1995, totaling \$12,313.45 to approximately 65 inmates at Turney Center. Furthermore, one of the 65 inmates was paid an additional \$290.48 between March 2 and May 24, 1995, when Mr. Morris instructed a supervisor to record the inmate as working when in fact the inmate had been sent to his cell on March 2 for violating a safety regulation. We found no support for the third allegation other than the statements of several CET free-world employees. The loss, if any, CET incurred because of the inferior parts was indeterminable.

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On December 5, 1995, Mr. Morris was placed on administrative leave for 30 days. In her letter to him, Ms. Pat Weiland, Acting Executive Director, stated that at the end of the 30 days his employment with CET would be terminated. According to Ms. Weiland's letter, she took these actions "due to continuing quality control problems and the inadequate oversight of plant operations."

We presented our findings to the offices of the Attorney General in Nashville and the District Attorney General for the Twenty-first Judicial District in Franklin on December 14, 1995.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/cwf

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Special Report
**Correctional Enterprises of Tennessee
Intentional Overpayments to Inmates
By an Industrial Operations Manager**
February 1996

REVIEW OBJECTIVES

The objectives of the review were to determine the nature and extent of any misclassification of production and nonstandard hours by Mr. Wayne Morris, an Industrial Operations Manager at Turney Center Industrial Prison and Farm for Correctional Enterprises of Tennessee (CET) [now named Tennessee Rehabilitative Initiative in Correction (TRICOR)] which would have inappropriately increased inmates wages; to determine if records indicated an inmate worked for CET when he was confined to his cell; to calculate the total overpayments to the inmates at the wood plant; to determine if CET was receiving inferior component parts from its suppliers; to refer our findings to the Office of the Attorney General and the District Attorney General; and to submit our findings to CET and recommend appropriate actions to correct any deficiencies.

RESULTS OF THE REVIEW

On June 8, 1995, our office received allegations that (1) Mr. Wayne Morris had instructed an inmate payroll clerk at the Turney Center Industrial Prison and Farm wood plant to understate production hours and overstate nonstandard hours so that inmates would be compensated at a higher wage; (2) Mr. Morris had instructed a supervisor to continue clocking an inmate's time card after the inmate no longer worked for CET; and (3) CET did not reject inferior component parts it received from its suppliers.

Our review of the first two allegations determined that Mr. Morris' actions resulted in overpayments between December 26, 1994, and June 25, 1995, totaling \$12,313.45 to approximately 65 inmates at Turney Center. Furthermore, one of the 65 inmates was paid an additional \$290.48 between March 2 and May 24, 1995 based on 393 hours of production, when Mr. Morris instructed a supervisor to record the inmate as working when in fact the inmate had been sent to his cell on March 2 for violating a safety regulation. We found no support for the third allegation other than the statements of CET free-world employees. As of December 15, 1995, no vendor

complaints had been filed. The loss CET incurred because of the inferior parts, if any, was indeterminable.

On December 14, 1995, we submitted our findings pertaining to Mr. Morris' actions to the Attorney General's Office in Nashville and the District Attorney General's Office for the Twenty-first Judicial District in Franklin.

"Audit Highlights" is a summary of the special report. To obtain the complete special report, please contact

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BY AN INDUSTRIAL OPERATIONS MANAGER
FEBRUARY 1996

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CORRECTIONAL ENTERPRISES OF TENNESSEE
INTENTIONAL OVERPAYMENTS TO INMATES
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FEBRUARY 1996

INTRODUCTION

On June 8, 1995, our office received allegations that (1) Mr. Wayne Morris, an Industrial Operations Manager for Correctional Enterprises of Tennessee (CET), now named Tennessee Rehabilitative Initiative in Correction (TRICOR), had instructed an inmate payroll clerk at the Turney Center Industrial Prison and Farm wood plant to understate production hours and overstate nonstandard hours so that inmates would be compensated at a higher wage; (2) Mr. Morris had instructed a supervisor to continue clocking an inmate's time card after the inmate no longer worked for CET; and (3) CET did not reject inferior component parts it received from its suppliers.

Our review of the first two allegations determined that Mr. Morris' actions resulted in overpayments between December 26, 1994, and June 25, 1995, totaling \$12,313.45 to approximately 65 inmates at Turney Center. Furthermore, one of the 65 inmates was paid an additional \$290.48 between March 2 and May 24, 1995, when Mr. Morris instructed a supervisor to record the inmate as working when in fact the inmate had been sent to his cell on March 2 for violating a safety regulation. We found no support for the third allegation other than the statements of CET free-world employees. The loss, if any, CET incurred because of the inferior parts was indeterminable.

OBJECTIVES OF THE REVIEW

The objectives of the review were

1. to determine the nature and extent of any understating of production hours by Mr. Morris;
2. to determine if records indicated an inmate worked for CET when he was confined to his cell;
3. to calculate the total overpayments to the inmates at the wood plant;
4. to determine if CET was receiving inferior component parts from its suppliers;
5. to refer our findings to the Office of the Attorney General and the District Attorney General; and

6. to submit our findings to Correctional Enterprises of Tennessee and recommend appropriate actions to correct any deficiencies.

BACKGROUND

Correctional Enterprises of Tennessee (CET) is governed by the Tennessee Rehabilitation and Inmate Labor (TRAIL) Board whose members have been appointed by the Governor. CET's mission is to be self-supporting and to provide inmates employment. The Turney Center Industrial Prison and Farm has three manufacturing plants: the wood plant, the metal plant, and the paint plant. A plant manager supervises each plant and reports to the Turney Center's Industrial Operations Manager (IOM). Until December 5, 1995, the IOM at the Turney Center was Mr. Wayne Morris. During the time in question, December 26, 1994, through June 25, 1995, the wood plant employed about 65 inmates per month; the metal plant, about 58; and the paint plant, about 15.

SCOPE OF THE REVIEW

Our review included interviews with the following CET employees: Mr. Morris; Ms. Pam Hancock, Director of Administrative Services; Mr. Charles Martin, Engineer; Mr. Mitch Erby, Cost Accountant; Mr. Lee Taylor, Correctional Industrial Supervisor (CIS) 4; Mr. David Armstrong, CIS 3; Mr. Fred Hern, CIS 3; Mr. James Kelly, CIS 3; Mr. Jimmy Bivens, CIS 3; Mr. Michael Clay, CIS 2; Mr. Eddie Hickerson, Stores Manager; Mr. Barry Talley, Stores Keeper II; Mr. Percy Blue, Warehouse Manager; and Mr. Terry Archibald, Inmate at Turney Center.

We also examined the Department of Correction's and CET's policies and procedures pertaining to inmate pay and inmate trust fund accounts; the wood plant's payroll worksheets; pay rate calculation worksheets for the wood, metal, and paint plants; the wood plant inmate payroll clerk's original worksheets; head count sheets; daily production summaries and production tickets; CET's contract with its main component supplier for the wood plant; and related memoranda.

DETAILS OF THE REVIEW

Allegation 1: An Industrial Operations Manager Intentionally Understated Production and Overstated Nonstandard Hours to Increase the Inmates' Monthly Payroll

According to the allegation, Mr. Wayne Morris, Turney Center Industrial Operations Manager (IOM), instructed the inmate payroll clerk at the Turney Center wood plant to understate production hours and overstate nonstandard hours. (Production hours directly relate to the building of a product. Nonstandard hours, also referred to as nonproduction or indirect hours, include time spent painting the shop, sweeping the floor, moving machinery, and other similar activities which cannot be associated with the production of any particular item.) Allegedly, Mr. Morris arbitrarily decided that the inmates should be paid approximately \$1.00 an hour for a portion of their labor and had the payroll calculation adjusted to reach the \$1.00 an hour pay rate.

Based on CET's Procedures Manual, Procedure No. 823, as early as April 1, 1993, all incentives (i.e., pay rates) were to be paid based on the written pay plan in effect at the time of the monthly payroll calculation. Furthermore, "any incentive not shown in the pay plan must be pre-approved, in writing, by the Director of CET." The policy also states that the "plant managers and IOM's will be held accountable for the accuracy and timeliness of the pay rate and payrolls" and that "cost accounting will conduct an audit of every payroll to ensure full compliance" with the payroll calculations.

In regard to the calculation of the inmates' hourly wage, CET's approved procedure at the time of the review was to divide the incentive pool (a flat fee or a percentage of the retail dollar amount of the finished goods shipped each month) by the production hours. The hourly wage for nonstandard hours was set a fixed rate of \$0.50 per hour. For example, if the inmates worked 6,000 production hours and 500 nonstandard hours in a month, and the incentive pay was calculated at \$1,500, the production hourly wage rate would be \$0.25 per hour (\$1,500 divided by 6,000 production hours). The nonstandard hourly wage rate would be the fixed rate of \$0.50 per hour. Therefore, in this example, the total cost of labor, based on these rates would be \$1,750.

However, our review determined that Mr. Morris, apparently on his own initiative, arbitrarily set the production hourly wage rate at \$1.00. Using our example, Mr. Morris would have taken 4,500 of the 6,000 production hours and "reclassified" them as nonstandard hours. The result would have been that the \$1,500 incentive pool was divided by 1,500 production hours in order to equal \$1.00 per hour for the 1,500 production hours. The 4,500 production hours now "reclassified" as nonstandard hours would be added to the previous 500 nonstandard hours for a total of 5,000 nonstandard hours. In effect, Mr. Morris directed the understatement of production hours by 4,500 hours and the corresponding overstatement of nonstandard hours by 4,500 hours. Consequently, in our example the total cost of labor would increase from the \$1,750

calculated above to \$3,750 ($\$1,500 + (5,000 \times \$0.50)$), a difference of \$2,000. This money would then be distributed to the inmates based on the hours they worked.

During an interview, two Correctional Industrial Supervisors stated that Mr. Morris had instructed the inmate payroll clerk to understate production and overstate nonstandard hours. One supervisor stated that Mr. Morris' explanation for paying the inmates approximately \$1.00 an hour was to increase inmates' morale and, thus, improve the quality of the work. According to the supervisors, the first month that the manipulation of hours occurred in the wood plant was for the December 26, 1994, to January 25, 1995, payroll. Mr. Morris was promoted to IOM on January 13, 1995, after serving as the Metal Shop plant manager for approximately four and one-half years. As IOM, Mr. Morris also served as the plant manager for the wood plant.

We selected the period December 26, 1994, through June 25, 1995, to review because Mr. Morris was not in charge of the wood plant until January 13, 1995, and because the only nonstandard hours incurred since June 25, 1995, appeared to be associated with the fiscal year-end inventory count. Furthermore, beginning August 7, 1995, the inmates at the Turney Center were in a "lock-down" status that prevented the majority of inmates from working for about six weeks. As a result of a CET policy change effective August 26, 1995, all inmates who have worked since August 26, 1995, have been paid a flat rate of \$1.00 an hour for all production hours which negates the plant manager's need to calculate a per-hour rate. Nonstandard hours are still paid at the flat rate of \$0.50 per hour.

A third supervisor who now manages the wood plant stated to us that he believed Mr. Morris was understating production hours and overstating nonstandard hours because the workers were spending additional hours finishing component parts that were arriving at CET in poor condition. Consequently, each finished good was taking longer to complete. If these extra hours, which should not have been necessary if the raw materials were of adequate quality, were counted as production hours, the total compensation would be less. The reason compensation would be less is that the total hours would be paid at an average wage of \$0.20 to \$0.40 per hour instead of a percentage of hours at \$1.00 an hour and the remaining percentage at \$0.50 an hour. According to the plant manager, Mr. Morris compensated for this extra time to complete the finished goods by moving what normally would have been considered production hours to nonstandard hours.

When we interviewed Mr. Morris, he stated that the allegation was true. According to Mr. Morris, when he first assumed the duties as the Industrial Operations Manager in January 1995, CET was in the initial phases of a new product line. The provider of the raw materials, Correctional Products and Services, Inc. (CPSI), had previously established time studies indicating the amount of time needed to complete one unit from raw material to finished good. Mr. Morris stated that he could not make his inmate workers work as quickly and efficiently as the CPSI workers and therefore he could not achieve the established time rates. Consequently, Mr. Morris stated that he instructed the inmate payroll clerk to treat a percentage of the production hours as nonstandard hours in order to pay a percentage of the total hours worked at a \$1.00-per-hour rate. According to Mr. Morris, the \$1.00-per-hour rate helped him to establish a more conducive working environment.

We obtained copies of the inmate payroll clerk's record of hours actually worked which listed the number and type of hours each wood plant employee worked. The inmate stated in an interview that he kept his record of hours because he was in the habit of documenting all his work in the nine years he had worked in the wood plant. The inmate's documents indicate what the actual production hours were before they were understated on the official payroll calculation documents submitted by the plant manager. Since "production hours" is the only denominator in the pay rate calculation, the net effect was that although the payroll for production hours remained constant, the "nonstandard" payroll increased 4,660% or \$1,880.40 for the month of January 1995. This large increase can be attributed to the fact that nonstandard hours are paid at a flat rate of \$0.50 per hour. As noted earlier, if the true production hours had been submitted, the hours would have been paid at \$0.21. We calculated that approximately 65 inmates received overpayments totaling \$12,313.45 between December 26, 1994, and June 25, 1995. (See Schedule A.)

According to Ms. Pam Hancock, Director of Administrative Services, the overpayments went unnoticed because the cost accounting department did not "conduct an audit of every payroll to ensure full compliance," as CET procedures require. She stated that this failure was based in part on her predecessor's instructions to the cost accounting department. Ms. Hancock stated that Mr. Victor Vaughn, former CET Director of Fiscal Services, apparently placed greater priority on other accounting areas and less on post-auditing the payroll summaries. Consequently, the cost accountant failed to verify the pay rate calculations and failed to notice the trend of escalating nonstandard hours at the Turney Center wood plant.

Allegation 2: An Industrial Operations Manager Continued to Pay an Inmate Even Though the Inmate No Longer Worked for CET

The second allegation also concerned Mr. Morris' actions to circumvent internal controls. According to the allegation, Mr. Morris instructed a Turney Center wood plant supervisor to continue clocking an inmate's time card between March 2 and May 24, 1995, to indicate the inmate was working at the wood plant even though the inmate had been confined to his cell on March 2, 1995, for a safety violation. Consequently, the inmate was overpaid for the period in question.

A Correctional Industrial Supervisor confirmed the allegation during an interview and stated that Mr. Morris had instructed him to ensure the inmate's time card was clocked in and out each day so that the inmate could receive a monthly paycheck. The supervisor stated that for the first four weeks of this period, he personally clocked the inmate's time card. After he was reassigned to a different area, a newly hired Correctional Industrial Supervisor, whom we also interviewed, acknowledged to us that he was instructed by Mr. Morris to continue the practice of clocking the inmate's time card.

When we interviewed Mr. Morris, he stated that the allegation was true. He explained to us that on March 2, 1995, Mr. Anthony Pharris, Department of Correction Fire Safety Inspector, had informed him an inmate had been spraying a desk with varnish in an area that created a safety

and fire hazard. However, Mr. Morris stated to us that he had arrived at the spraying area a few minutes after Mr. Pharris and could not tell if the inmate had been spraying varnish in a hazardous manner. Mr. Morris stated that he had followed Mr. Pharris' instructions to send the inmate to his cell. However, since he had never received a formal complaint from Mr. Pharris, Mr. Morris believed that if the inmate were to appear before the disciplinary board the board would rule that the inmate should be allowed to work and should be paid for any lost wages. Mr. Morris stated that consequently he instructed the supervisors to record on the weekly time cards that the inmate was working for CET when, in fact, the inmate was confined to his cell.

As part of our review of this allegation, we reviewed (1) the memorandum from Mr. Pharris to former Turney Center Warden Ricky Bell relating the incident, (2) the inmate's time cards for the period in question, (3) the daily Department of Correction count sheets used to monitor the inmate's location, and (4) the Department of Correction's policies and procedures on disciplining inmates.

The memorandum from Mr. Pharris to Warden Bell indicated that Mr. Pharris had observed an inmate spraying varnish in an unauthorized location. Mr. Pharris stated in an interview that his memorandum was his official report and that it was Mr. Morris' responsibility, not his, to ensure the inmate was disciplined. However, there is no indication that Mr. Morris sought to discipline the inmate other than confining him to his cell.

We compared the hours on the inmate's time card with the hours on the Department of Correction's count sheets. According to our schedule, the inmate was shown working a total of 393.0 hours for CET during the same hours he was confined to his cell. As a result, the inmate received \$290.48 he was not entitled to receive. However, the decision not to allow a CET worker to report to duty, pending a hearing, is solely at the discretion of the supervisor for this type of infraction.

Actions by CET's Management Pertaining to Mr. Morris

On December 5, 1995, Ms. Pat Weiland, Acting Executive Director, placed Mr. Morris on administrative leave for 30 days. In her letter to him, Ms. Weiland stated that at the end of the 30 days his employment with CET would be terminated. According to Ms. Weiland's letter, she took these actions "due to continuing quality control problems and the inadequate oversight of plant operations."

Referral to the District Attorney General

On December 14, 1995, we submitted our findings pertaining to Mr. Morris' actions to the Office of the Attorney General in Nashville and the District Attorney General's Office for the Twenty-first Judicial District in Franklin.

Allegation 3: CET Received Inferior Component Parts and Did Not Reject Them

According to the initial information provided our office, CET was receiving inferior component parts or kits and not returning them to the supplier, Correctional Products and Services, Inc. (CPSI). Since we observed only two damaged component parts, we could not independently confirm this allegation. Furthermore, the only documentation available for review consisted of memoranda between CPSI and CET. However, according to the CET employees we interviewed, the former Director of Manufacturing, Mr. Ernie White, had instructed the CET stores manager and supervisors to accept inferior component parts instead of returning them to CPSI.

On April 20, 1994, a committee consisting of 13 representatives of the Departments of Finance and Administration, General Services, Health, and Mental Health and Mental Retardation evaluated the bids received by General Services for products to be supplied to CET. The vendors supplying bids were Original Equipment Industries (OEI), Indiana Chair and Frame (ICF), and CPSI. As a result of the evaluation, two five-year awards were granted on June 1, 1994, to CPSI to supply desk casegoods, wood seating, and executive seating components to CET. The estimated value of the contracts is \$8,807,923.00, but the contracts do not obligate the state to guarantee to buy any or all components.

During interviews with the acting wood plant manager, Correctional Industrial Supervisors, stores manager, and stores keeper, each employee stated that on numerous occasions, raw materials or component parts were received from CPSI in such poor condition that additional hours had to be spent fixing the parts so that they could be used in the normal operations. Consequently, each finished good was taking longer to complete. A Correctional Industrial Supervisor and the stores manager each stated that they had been instructed by Mr. Ernie White, former Director of Manufacturing, not to reject the materials but, instead, to do whatever was necessary to make the component parts usable in production. When we interviewed Mr. Morris, he stated that CET had received poor quality materials during the initial phases of the new product line established in January 1995. Mr. Morris stated that CET was still experiencing a few problems, but that CPSI's quality of raw materials had improved and CET was more successful in returning inferior parts since Mr. White had left CET's employment. We determined that no vendor complaints had been filed with the Department of General Services, Division of Purchasing, against CPSI. It should be noted that according to CET personnel, Mr. White had worked for CPSI before coming to CET and that after leaving CET, he had returned to a CPSI plant in Texas. We tried to reach Mr. White to obtain his recollection of the events transpiring at CET concerning these three allegations. However, our attempts to reach him by telephone were unsuccessful.

CONCLUSION

Based on our review, it appears that while acting as the wood plant manager, Mr. Morris had instructed his inmate payroll clerk to understate production hours and overstate nonstandard hours. The effect of this action resulted in overpayments of wages totaling \$12,313.45 between December 26, 1994, and June 25, 1995. Furthermore, between March 2 and May 24, 1995, Mr. Morris instructed a supervisor to clock an inmate's time card to indicate the inmate was working for CET when, instead, the inmate had been sent to his cell on March 2 for violating a safety regulation and did not return to work during this period. As a result of this action, the inmate received \$290.48 he was not entitled to receive. The aggregate overpayments stemming from understating production hours and paying an inmate for not working totaled \$12,603.93. We found no support for the third allegation other than the statements of several CET free-world employees. The loss CET incurred because of the inferior parts, if any, was indeterminable.

RECOMMENDATIONS

Top management should immediately implement procedures to ensure that inmates are not directly involved in the monthly payroll calculation. Even though there is no apparent indication the overpayments to inmates was initiated by the inmate payroll clerk, the plant manager did appear to routinely approve the calculation without an adequate review. Consequently, the plant manager's failure to personally calculate the payroll creates the appearance of possible manipulation by inmates. Plant managers should be informed of their responsibility in calculating payroll and retrained on what qualifies as production hours and nonstandard hours. The policies and procedures manual should be updated to reflect the current pay plan and each employee's responsibility in adhering to and monitoring the stated policies and procedures.

Since the current policies and procedures state that cost accounting will perform a post-audit review of compliance on every payroll submitted by the plant managers, top management should ensure that the cost accountant understands the importance of this policy and complies with it. The total monthly payroll should be compared to the total available incentive pay. A continuing analysis should be completed by the cost accountant each month for each manufacturing plant, comparing the ratio of total nonstandard hours to production hours. A variance report should be submitted to the Executive Director and the Director of Administrative Services highlighting significant discrepancies which should be immediately investigated and resolved. Furthermore, plant managers should be required to document the reasons for any discrepancies.

Top management and the Tennessee Rehabilitation and Inmate Labor (TRAIL) Board should review the special terms and conditions, letter of understanding, and contract with Correctional Products and Services, Inc. (CPSI). Management should consult with the workers, supervisors, and plant managers regarding the condition of materials received from CPSI and the effect the condition places on meeting scheduled production orders. Guidelines should be established on when and how to reject inferior component parts, and vendor complaints should be filed with the Department of General Services' Division of Purchasing when applicable.