

*A REPORT BY THE NEW YORK STATE
OFFICE OF THE STATE COMPTROLLER*

**Alan G. Hevesi
COMPTROLLER**



**DEPARTMENT OF CORRECTIONAL
SERVICES**

**ADMINISTRATION OF CONTRACT X160575
WITH MCI WORLDCOM FOR THE INMATE
CALL HOME PROGRAM**

2002-R-1

DIVISION OF STATE SERVICES

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Report 2002-R-1

Mr. Glenn S. Goord
Commissioner
Department of Correctional Services
Building #2, State Campus
1220 Washington Avenue
Albany, New York 12226

Dear Mr. Goord:

The following is our report addressing the Department of Correctional Services' administration of Contract X160575 with MCI WorldCom for the Inmate Call Home Program for the period April 1, 1996 through March 31, 2001.

This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law. Major contributors to this report are listed in Appendix A.

Office of the State Comptroller
Division of State Services

July 10, 2003

EXECUTIVE SUMMARY

DEPARTMENT OF CORRECTIONAL SERVICES

ADMINISTRATION OF CONTRACT X160575 WITH MCI WORLDCOM FOR THE INMATE CALL HOME PROGRAM

SCOPE OF AUDIT

The Department of Correctional Services (Department) operates 70 correctional facilities statewide. Each facility has special telephones, which can be used by inmates in the Inmate Call Home Program (Program) to make calls to family and friends, and thus maintain essential ties with their communities. All calls are collect calls: they must be accepted by the party being called and are billed to that party. The telephone system used in the Program is operated by a contractor (MCI WorldCom), which is responsible for billing for the calls and collecting call revenue. Each month, 60 percent of the revenue from all completed calls is to be sent to the Department as a commission. These funds may then be used by the Department in certain programs that benefit inmates.

During the five years ended March 31, 2001, the period covered by the Department's first contract with MCI WorldCom (MCI), \$109.1 million in Program revenue was received by the Department and \$108.8 million of Program revenue was expended by the Department. At the conclusion of the first contract, MCI was awarded another contract to continue operating the Program.

Our audit addressed the following questions about the five-year period covered by the first contract:

- Did the controls established by the Department and MCI provide adequate assurance Program revenue was accurately accounted for and properly remitted to the Department?
- Was Program revenue deposited into the appropriate Department account and expended for authorized purposes only?

AUDIT OBSERVATIONS AND CONCLUSIONS

We found that the Department did not establish independent controls for verifying the accuracy and completeness of MCI billing data for the Program. As a result, the Department lacked adequate assurance that it received all the commissions it was due.

MCI was required to send commission payments to the Department monthly and provide the Department with documentation supporting these payments. The Department was supposed to review this documentation to ensure that the payments were correct. We found that MCI complied with its requirements, and the Department verified all of the payments against the supporting documentation provided by MCI. We examined this documentation and confirmed that it was consistent with the payments made to the Department during the contract period. (See p. 5)

However, we also determined that the documentation provided by MCI did not provide adequate assurance that all of the revenue from Program calls was fully and accurately accounted for. While this documentation indicated how many calls were made each month through the Program, how long each call lasted, and what phone numbers were called, the documentation was provided by MCI and therefore was not sufficiently independent. In addition, the controls over the automated systems that processed the information were neither documented by MCI nor verified periodically by an entity independent of MCI. We further determined that the same documentation process continues to be used in the new contract. We therefore recommend that the Department provide independent controls to reasonably assure the completeness and accuracy of the billing information provided to the Department by MCI in order to verify the correctness of commission payments. (See pp. 5-6)

The Department was required to deposit all Program revenue in a designated State account. We determined that all of the revenue received during the five-year contract period was deposited in this account. Further, all expenditures from this account should relate to certain authorized purposes that are intended to benefit the inmates at the correctional facilities (such as inmate health care and family visiting programs). We examined a sample of \$502,688 in expenditures from a one-year period, and determined that all of these expenditures related to authorized purposes. We also determined that the expenditures were properly approved and adequately documented. (See pp. 5-8)

COMMENTS OF DEPARTMENT OFFICIALS

Department officials responded that they will include a requirement for a periodic independent audit of the call processing equipment in the next contract.

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INTRODUCTION

Background

The Department of Correctional Services (Department) operates 70 correctional facilities statewide. Each facility has a number of specially installed telephones, which can be used by inmates in the Department's Inmate Call Home Program (Program) to make calls to family and friends. The only type of call that can be made on these phones is a collect call, which must be accepted by the party being called. In addition, a call cannot be placed unless the inmate enters a personal identification number that has been authorized by the Department. The charges for all the calls are billed to the parties who accept the calls.

The purpose of the Program is to enable inmates to maintain essential ties with their communities. The telephone system used in the Program is operated by a contractor, which is responsible for billing for the calls and collecting call revenue. The Department receives a portion of the call revenue from the contractor, and is authorized by the State Legislature to use this revenue in various programs that benefit the inmate population.

The Program, which was initiated in 1985, has been operated by various contractors. In 1996, the MCI Telecommunication Corporation, now known as MCI WorldCom (MCI), was awarded contract X-160575 to operate the Program. The initial contract was awarded for the period April 1, 1996 through March 31, 1999. Two additional one-year extensions were subsequently approved. According to the terms of the contract, MCI was expected to:

- provide service to the Department 24-hours a day, seven days a week,
- provide the Department with billing data relating to the telephone numbers called through the Program,
- be capable of blocking phone calls placed by inmates when requested by the Department and/or the general public, and
- bill and collect revenue for all completed calls.

MCI was required by the contract to pay the Department a commission of 60 percent of the revenue from each completed call. For the five-year contract period, the State's commissions and certain penalties assessed on MCI under the terms of the contract (e.g., for late payment) totaled \$109,138,980, as follows:

| Contract Year | Program Revenue |
|----------------------|------------------------|
| 1996-1997 | \$22,931,192 |
| 1997-1998 | \$20,687,042 |
| 1998-1999 | \$20,489,274 |
| 1999-2000 | \$22,230,959 |
| 2000-2001 | \$22,800,513 |
| Total Revenue | \$109,138,980 |

During this same five-year period, Department expenditures of Program revenue totaled \$108,821,287. At the conclusion of the second contract extension, MCI was awarded a new contract to continue operating the Program. The new contract covers the period April 1, 2001 through March 31, 2004.

Audit Scope, Objectives and Methodology

We audited selected aspects of the initial contract between the Department and MCI for the five-year period April 1, 1996 through March 31, 2001. The objectives of our financial-related contract-compliance audit were to determine whether (1) the controls established by the Department and MCI provided adequate assurance Program revenues were accurately accounted for and properly remitted to the Department, and (2) Program revenue was deposited into the appropriate Department account and expended for authorized purposes only.

To achieve our objectives, we reviewed the contract and associated documents, interviewed MCI officials and examined selected records maintained by MCI. We also interviewed Department officials and staff, and examined selected records maintained by the Department.

In the course of our audit, we determined that the procedures and controls that were in effect during the five-year period of the initial contract with MCI continued to be in effect for the second

contract with MCI, and were still in effect as of April 30, 2003. Accordingly, the recommendation contained in this report relates to improvements that need to be made in the administration of the current contract with MCI.

We conducted our audit in accordance with government auditing standards generally accepted in the United States of America. Such standards require that we plan and perform our audit to adequately assess the operations that are included in our audit scope. Further, these standards require that we understand the Department's and MCI's internal control structures and their compliance with those laws, rules and regulations that are relevant to the operations which are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

Internal Control and Compliance Summary

Our consideration of the Department's and MCI's internal control structures found that improvements are needed in the practices used to verify the accuracy and completeness of Program revenue. This matter is discussed in more detail in the section of this report entitled *Program Revenue*.

Response of Department and MCI Officials

A draft copy of this report was provided to Department and MCI officials for their review and comment. Their comments were considered in preparing this report, and the comments of Department officials are included as Appendix B.

Department officials responded that they will include a requirement for a periodic independent audit of the call processing equipment in the next contract.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Department of Correctional Services shall report to the

Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

PROGRAM REVENUE

Each month, the Department receives a check from MCI for its commissions on the calls inmates make through the Program. This check is accompanied by documentation showing the number, duration, and destination of calls. In addition, special computers connected to phone lines at the correctional facilities record the inmates' personal identification number, the phone numbers called, the phone used by the inmate, and the length of the call. This information, which is known as the call detail record (CDR), is used by MCI to generate the bills sent to the individuals who accept the inmate collect calls. An MCI subcontractor maintains the computers that generate the CDR data. MCI also provides the CDR to the Department each day.

We found that the amount of commissions paid to the Department during the five-year contract period was consistent with the monthly documentation from MCI, and the Department reconciles the MCI monthly documentation to the CDR. We also found that Program revenue (both commissions and penalties) received by the Department during the five-year contract period was deposited into the appropriate account, known as the Family Benefit Fund.

While the consistency of the remittance check with the supporting documentation and the reconciliation of the CDR to the supporting documentation are important factors in the revenue control process, these do not afford adequate assurances that the Department received all the revenue it is entitled to under the contract for the Program. In fact, our audit determined that the detailed call information from the special computers cannot be relied on, because the controls over the systems that process the information are neither documented by MCI nor verified periodically by an entity independent of MCI.

We also determined that the Department regularly identifies discrepancies between the monthly documentation and the detailed call information, indicating that the monthly documentation from MCI is not always complete and accurate. In fact, the Department has recovered additional revenues and

penalties as a result of these reconciliations. Further, since we were unable to apply other auditing procedures to satisfy ourselves that the reported revenues were accurate, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion thereon.

If the Department is to be reasonably assured that it receives all revenue it is entitled to, it needs to establish its own independent controls to verify the reliability of the monthly documentation from MCI and the daily CDR. The State Comptroller's Procurement Disbursement Bulletin G-67, Monitoring of Contracts, indicates that every State agency should have a system in place to monitor and evaluate a contractor's performance in meeting the goals and requirements of a contract. For example, such controls for the contract for the Program might include obtaining independent reports certifying the accuracy, completeness and reliability of MCI billing data for inmate calls based on evaluation and testing of the computer applications that track these calls and generate the CDR. Other controls might include analytical procedures established by the Department to determine that documentation provided by MCI was consistent with routine studies and observations of inmate calling patterns.

Unless the Department establishes or provides for independent controls to verify the accuracy and completeness of MCI billing data for inmate calls, the Department lacks assurance that it is receiving for deposit all revenue that it is entitled to under the contract.

Recommendation

1. Take steps to provide for independent controls that can be relied on for verifying the accuracy and completeness of billing data provided by MCI for the Program.

(Department officials agreed to arrange for an independent audit in the next contract. They add that this audit will increase administrative costs by at least \$150,000 per year.)

Auditor's Comments: Incurring the cost of an audit is not the only means to implement our recommendation. For example, use of analytical procedures to assess the reliability of billing data may be another option.

PROGRAM EXPENDITURES

The Program revenue received by the Department may be expended by the Department for certain authorized purposes. All of the authorized purposes are intended to benefit the inmate population and include the Inmate Family Busing Program, the Inmate Family Visiting Program, the Medical Parole Program and other health services such as the purchase of AIDS medications. Expenditures may be made by individual correctional facilities or the Department's Central Office. All expenditures of Program revenue are to be made from the Family Benefit Fund. During the five-year contract period, a total of \$108,821,287 in such expenditures were made by the Department.

We examined a sample of these expenditures to determine whether they were properly approved, adequately documented and for authorized purposes only. Our sample consisted of 60 separate transactions totaling \$502,688. We found that all of these transactions were properly approved, adequately documented, and for authorized purposes only.

Appropriateness of Expenditures

The Program revenue received by the Department may be expended for authorized purposes only. All expenditures must receive certain approvals and be supported by adequate documentation. The Department distributes guidelines for making expenditures to the individual correctional facilities. According to these guidelines, expenditures relating to health services must be approved by the Central Office, while expenditures relating to specific inmate programs must be approved by the appropriate manager at the individual correctional facility making the expenditure. All expenditures are reviewed by the Central Office to ensure that appropriation amounts are not exceeded and expenditure totals agree with the State Accounting System. The Central Office also monitors certain types of expenditures to determine whether spending patterns are consistent with the patterns in prior years.

To determine whether expenditures were properly approved, adequately documented and for authorized purposes only, we judgmentally selected for review 60 expenditure transactions (from a total population of 442 transactions) totaling \$502,688. We selected all 60 transactions from the expenditures that were made in the year ended March 31, 2001 (such expenditures totaled about \$21 million). In addition, we restricted our review to two types of expenditures: expenditures for AIDS pharmaceuticals and expenditures for civilian clothing used by inmates on release. We selected AIDS pharmaceutical expenditures because they accounted for 56 percent of all Program revenue expenditures during the year ended March 31, 2001, and we selected release clothing expenditures because this was one of the most common types of inmate program expenditures during that year. Our judgmental sample consisted of 35 AIDS pharmaceutical expenditures totaling \$435,619 and 25 release clothing expenditures totaling \$67,069. We randomly selected the 35 and 25 transactions within each category.

We determined that all 60 expenditures were properly approved, adequately documented, and for authorized purposes only.

Oversight of Expenditures

According to the Comptroller's Internal Control Standards, transactions should be monitored to provide assurance that operations are in compliance with requirements. We examined the policies and procedures established by the Department for monitoring expenditures of Program revenue. We determined that a number of policies and procedures have been established. For example, purchase orders must be approved before the orders can be placed, and vouchers must be approved by the appropriate personnel prior to payment. We conclude that an appropriate degree of internal control is provided by these policies and procedures.

MAJOR CONTRIBUTORS TO THIS REPORT

William Challice

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GLENN S. GOORD
COMMISSIONER

June 18, 2003

Mr. William P. Challice
Audit Director
Office of the State Comptroller
State Audit Bureau
123 William Street - 21st Floor
New York, New York 10038

**Re: Draft Audit of the Department of
Correctional Services – Administration
of Contract X160575 with MCI Worldcom
for the Inmate Call Home Program,
Report 2002-R-1**

Dear Mr. Challice:

In accordance with Section 170 of the Executive Law and in response to your correspondence of June 3, 2003, attached is the Department's reply to the draft audit of the Department of Correctional Services – Administration of Contract X160575 with MCI Worldcom for the Inmate Call Home Program, Report 2002-R-1.

We have complied with the provisions of the Budget Policy and Reporting Manual, item B-410 by forwarding two copies of this response to the Division of the Budget on June 18, 2003.

God Bless America,


Glenn S. Goord
Commissioner

Attachment

Appendix B



STATE OF NEW YORK
DEPARTMENT OF CORRECTIONAL SERVICES
THE HARRIMAN STATE CAMPUS
1220 WASHINGTON AVENUE
ALBANY, N.Y. 12226-2050

GLENN S. GOORD
COMMISSIONER

RICHARD D. ROY
ASSOCIATE COMMISSIONER

June 17, 2003

Mr. William P. Challice
Audit Director
State of New York
Office of the State Comptroller
123 William Street - 21st Floor
New York, New York 10038

Dear Mr. Challice:

I am writing in response to your audit report on the Inmate Telephone Program.

We have reviewed your recommendation and agree to include the requirement for a periodic independent audit of the call processing equipment in our next contract. As we indicated in our closing conference, we believe that this language would best be provided by your agency. In the absence of such direction, we will be evaluating the best approach to conduct such an audit and developing language that we can incorporate into future contracts for our Inmate Telephone Program. We estimate that an independent audit will increase the cost of administering this program by at least \$150,000 per year.

As you know, our current approach to auditing the commissions is unique and that we have one of the most stringent programs in use. We intercept the call detail daily and build a reconciliation file to match against the monthly billing tapes. Unfortunately, change to any aspect of software running on the platform can affect that accuracy, therefore, annual audits will be required.

On a positive note, your review covered more than a six-year period for which we provided call detail records for over thirty-five million calls, and your audit did not find any significant problems with the processes in place. We are very pleased that our reconciliation process held up to your detailed and exhaustive review.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard D. Roy".

Richard D. Roy
Associate Commissioner

cc: Joseph Ostrowidzki, Assistant Commissioner
Ron Courington, Director of MIS
Leo Bisceglia, Internal Controls