

Washington State Auditor's Office
Accountability Audit Report

Department of Corrections

Audit Period
July 1, 2008 through June 30, 2009

Report No. 1002601

Issue Date
December 7, 2009



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

December 7, 2009

Mr. Eldon Vail, Secretary
Department of Corrections

Report on Accountability

We appreciate the opportunity to work in cooperation with your agency to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role to advocate for government accountability and transparency and to promote positive change.

Please find attached our report on the Department of Corrections' accountability and compliance with state laws and regulations and its own policies and procedures. Thank you for working with us to ensure the efficient and effective use of public resources.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

Table of Contents

State of Washington Department of Corrections

Audit Summary	1
Related Reports	2
Description of the Department.....	3
Schedule of Audit Findings and Responses	5
Status of Prior Audit Findings	15

Audit Summary

State of Washington Department of Corrections

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of the Department of Corrections for the period from July 1, 2008, through June 30, 2009.

We evaluated internal controls and performed audit procedures on the activities of the Department. We also determined whether the Department complied with state laws and regulations and its own policies and procedures.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. The following areas were examined during this audit period:

- Cash handling
- Payroll
- Credit cards
- Local funds
- Status of prior year loss

RESULTS

In most areas, the Department complied with state laws and regulations and its own policies and procedures.

However, we identified conditions significant enough to report as findings:

- The Department does not have adequate policies or internal controls over Voyager fuel cards.
- The Department does not have adequate internal controls over cash handling in the prison mail rooms.

We also noted certain matters that we communicated to Department management. We appreciate the Department's commitment to resolving those matters.

Related Reports

State of Washington Department of Corrections

FINANCIAL

We perform an annual audit of the statewide basic financial statements, as required by state law (RCW 43.09.310). Our opinion on these financial statements is included in the Comprehensive Annual Financial Report (CAFR) prepared by and available from the Office of Financial Management. The CAFR reflects the financial activities of all funds, organizations, institutions, agencies, departments and offices that are part of the state's reporting entity. That report is issued by the Office of Financial Management in December of each year and can be found at www.ofm.wa.gov.

FEDERAL PROGRAMS

In accordance with the Single Audit Act, we annually audit major federal programs administered by the state of Washington. Rather than perform a single audit of each agency, we audit the state as a whole. The results of that audit are published in a report issued by the Office of Financial Management in March of each year.

OTHER REPORTS

During the current audit period, the State Auditor's Office issued reports in pursuant to the State Employee Whistleblower Act (Chapter 42.40 RCW). Those reports are available on our Web site, www.sao.wa.gov.

Description of the Department

State of Washington Department of Corrections

ABOUT THE DEPARTMENT

The Department of Corrections was created in 1981 by the Washington State Legislature (Chapter 72, RCW). Prior to 1981, the Department was a division of the Department of Social and Health Services. The Department consists of the Office of the Secretary and four operating divisions, headed by three Assistant Secretaries and one Health Services Director: the Prisons Division, the Community Corrections Division, the Administrative Services Division and the Health Services Administration.

The Department is a highly decentralized agency, employing approximately 8,000 employees to administer and supervise over 18,000 offenders housed in 15 institutions and 15 work release locations around the state. In addition, the Department provides oversight for more than 42,000 offender field cases, of which over 29,000 are supervised offenders in the community. In 2003 the Department began renting beds in local jails and other jurisdictions to address a shortage of space in state prisons. Approximately 1,700 beds are rented from these additional sources.

The Department also operates Correctional Industries, a business enterprise, at several of its institutions. Correctional Industries is committed to maintaining and expanding offender work/training programs which develop marketable job skills, instill and promote a positive work ethic among offender workers and reduce the tax burden of corrections. Correctional Industries includes, but is not limited to, furniture and clothing manufacturing, food processing and printing.

For the 2007-2009 biennium, the Department budgeted \$1.76 billion for operations and \$376 million was allocated to capital projects.

DEPARTMENT CONTACT INFORMATION

Address: Department of Corrections
P.O. Box 41107
Olympia, WA 98504-1107

Phone: (360) 725-8213

Web site: www.doc.wa.gov

AUDIT HISTORY

We audit the Department annually. The past five audits of the Department have reported three findings in two areas of concern. The 2004 audit reported weaknesses in internal controls over pharmaceutical inventories. No findings were reported in 2005, 2006 or 2007. The 2008 audit contained two findings, one involving internal control weaknesses over local funds and one involving a misappropriation of funds from the Offender Welfare and Betterment Fund at McNeil Island Correctional Center.

Schedule of Audit Findings and Responses

State of Washington Department of Corrections

- 1. The Department does not have adequate internal controls over Voyager fuel cards to prevent or detect misappropriation of public funds.**

Background

The Department issues Voyager fuel cards to its field offices, prisons and regional offices for use in fueling Department vehicles. The Department had 1,152 fuel cards at the end of May 2009. Only 785 of these cards were used during the year. Approximately \$639,000 was charged on the active cards between July 1, 2008, and June 30, 2009.

Department policy states the cards can be used to purchase regular unleaded fuel, diesel fuel and up to six car washes per car per year. They are not to be used for any other items, including service or maintenance, except in the case of emergency. In the case of emergency, only oil, wiper blades and operating lights may be purchased.

The fuel cards are assigned as follows: 852 cards to fleet vehicles, 279 cards to prisons and other offices and 21 cards to individuals. All fuel card bills are reviewed and paid by the Northwest Regional Office, Southwest Regional Office or Eastern Regional Office.

Description of Condition

We reviewed controls in place over fuel cards at the three regional offices and found:

- Because supporting documentation is not reviewed and card activity is not tracked by user, responsibility for transactions cannot be affixed for cards assigned to vehicles card users and purchase reviewers do not have a consistent understanding regarding what types of purchases are allowable.
- Card users do not consistently obtain receipts for purchases.
- Fuel card bills are not reconciled to supporting documentation.
- Card reviewers do not request justification for "emergency" use.
- No one tracks the number of car washes purchased for each car each year.
- No activity for 367 cards during the fiscal year. The Department did not cancel or deactivate the unused cards.

Cause of Condition

State rules require agencies to establish internal controls regarding credit card use. The Department has a policy regarding the use of purchasing cards and a separate policy covering the use of fuel cards, we found the fuel card policy does not address several areas including transaction documentation (receipts, mileage logs, emergencies) requirements, how to submit the documentation, tracking of purchases and use of a credit card user agreement.

The Department stated that it was aware of the issues with the fuel cards but was not sure how to address them.

Effect of Condition

We reviewed the April 2009 fuel card statements, totaling \$36,406.93, from all three regions. The statements described each purchase. We reviewed the statements and chose 120 transactions to review, with descriptions that appeared questionable, totaling \$3,712.77. We requested supporting receipts and mileage logs and found \$2,900.84 in charges to the card were unallowable or did not have enough documentation to allow us to determine if they were allowable. Specifically:

- Ninety-one out of 120 transactions were not supported by a receipt and/or mileage log. We then looked at the billing statement descriptions to determine if the transactions were allowable.
 - Seventy of these transactions were for purchases of unallowable items such as unleaded plus gas, premium gas and nonemergency oil changes.
 - We were unable to determine whether 18 of those transactions, based on the descriptions in the billing statements, were for Department business.

Additionally, maintaining far more cards than needed increases the risk of loss or misuse of public resources.

Recommendation

We recommend the Department establish and enforce adequate policies and procedures to ensure fuel cards are used for allowable business purposes and in accordance with management's expectations.

Card users should be trained on the allowable use of the cards and types of documentation they need to retain and submit. The Department should obtain and review support documentation before paying fuel card bills.

We further recommend the Department regularly eliminate cards that are not being used.

Department's Response

The Department of Corrections would like to thank the State Auditor's Office for their assistance during the current audit.

The Department concurs with the Auditor's recommendations and has acted to establish effective controls of Agency's fuel cards. A new process was established to randomly audit fuel cards. In addition, the Agency will update the policy to standardize practices and controls for the use of these cards at all agency locations.

Auditor's Remarks

We thank the Department for its cooperation and assistance throughout the audit. We will follow up during our next audit.

Applicable Laws and Regulations

WAC 236-48-251, Distribution of credit, charge cards or purchasing cards, states:

Agency heads (or their designees) shall institute a system for responsibility, control and distribution of credit, charge or purchasing cards within each agency.

SAAM 45.20.20.a states in part:

An agency should establish internal controls to address the use of the purchase card as a means of expending state funds. The following is the minimum level of controls acceptable:

- Maintaining a list of all cardholders, card custodians, and designated card users in the agency.
- Card users shall be given a copy of the agency purchase card policies and procedures, should sign a card user agreement form, and should complete training prior to a purchase card being issued and used.
- Promptly recording, properly classifying, and promptly reconciling all transactions.
- Assigning key duties and responsibilities to ensure a proper separation of duties.
- Safeguarding purchase cards and account numbers against loss, theft, and unauthorized use. Cards should be kept by the cardholder or card custodian in a secure (locked) location when not in use.
- Agencies utilizing department cards should create and maintain a department card log to track card use. Designated card users should check out and check in the card on a

department card log and describe the business purpose for each use in order to make a purchase.

- Reconciling and approving card statements at least monthly.

SAAM 45.10.70.c states in part:

The agency program administrator is the person responsible for management and oversight of the purchase card program within the agency, and is responsible for the following:

- Developing and enforcing agency policies and procedures for using the purchase card, including disciplinary procedures related to unauthorized use of cards and card renewal procedures. The agency policies and procedures should meet the minimum requirements of the statewide policies and procedures contained in this chapter. State ethics laws should also be considered when developing agency policies.
- Providing training to approving officials, cardholders, card custodians, and designated card users in the management, security, and use of the card.
- Reviewing the agency purchase card program at least annually to ensure that proper procedures are being followed.
- Ensuring card users satisfy documentation requirements for purchases.
- Closing card accounts as necessary, and collecting and destroying cards upon employee reassignment or termination.

SAAM 45.10.70.d states in part:

The approving official is assigned to monitor, review, and approve card transactions to ensure compliance with purchase card policies and procedures, and is responsible for the following:

- Ensuring timely reconciliation of card statements, including ensuring that supporting documentation is attached.
- Monitoring card activity for unusual patterns of use or unacceptable transactions, and taking appropriate disciplinary measures with card users who misuse their purchase card.

SAAM 45.10.70.e states in part:

For agencies who choose to utilize department cards, the card custodian administers and controls the use of department cards by authorized designated card users within the card custodians' workgroup and is responsible for the following:

- Complying with all state, agency, and purchasing statutes, rules, policies, and procedures.
- Training designated card users on the use of the card.
- Ensuring that designated card users obtain and submit valid supporting documentation for each purchase made.
- Reconciling the card statement to the purchase card transaction log and supporting documentation, at least monthly, and submitting to the approving official for approval.

SAAM 45.10.70.f states in part:

For agencies who choose to utilize department cards, the designated card user is an authorized user of a department card, and is responsible for the following:

- Using the purchase card in accordance with all state and agency statutes, rules, policies, and procedures.
- Obtaining and submitting valid supporting documentation for each purchase made.
- Checking card back in on department card log after use and immediately returning card and supporting documentation to card custodian.
- Safeguarding card security at all times.

Department of Corrections Vehicle Use Policy 230.500, Part B – Fuel Cards, states in part:

- Vehicle washes may be purchased, up to 6 per vehicle annually, without prior approval.
- Cards may be used to purchase fuels, oil, and emergency repairs when using the Department of Transportation fuel card would cause undue hardship.
- Mileage logs, keys, and fuel cards will be kept in the local Department office when the vehicle is not in use.
- Fuel cards should be used to purchase Regular Unleaded gasoline or diesel whenever possible.

Schedule of Audit Findings and Responses

State of Washington Department of Corrections

2. The Department does not have adequate controls over cash receipting in the mailrooms at the prisons to prevent or detect misappropriation.

Background

The Department receipts money orders, checks and some cash at all 15 prisons it administers. Most of this money is sent by friends and family to inmates. When an inmate receives money in addition to his or her wages except settlements, awards resulting from legal action, or funds designated for postage, state law subjects this money to a 20 percent deduction to contribute to the cost of incarceration.

The Department receipted approximately \$21 million into inmate accounts in fiscal year 2009. Of this, approximately \$1.8 million was deducted by the Department for cost of incarceration.

Description of Condition

We reviewed the cash-handling for inmate accounts at the Washington Correctional Center for Women, the McNeil Island Correctional Center, the Monroe Correctional Center and Airway Heights Correctional Center. The prisons all use the same receipting system to log cash receipted in the mailrooms.

During our review, we identified the following weaknesses in cash-receipting processes in the mailrooms:

At all four prisons:

- The mail is not opened by two people.
- Money orders are left unsecured on a table before they are entered into the system.
- No signature is required when money orders are transferred from the mailroom to the Business Office.
- The receipting system allows transactions to be permanently deleted, leaving no record of the activity.

At McNeil Island, Monroe, and the Washington Correctional Center for Women:

- A common logon is used, even though individual user accounts can be created.

- Not all money received is receipted into the receipting system. Items such as money orders that are not properly filled out and income tax refunds are set aside and returned to the sender or forwarded to family members without being tracked.

At Airway Heights:

- An employee picks the mail up from the Post Office alone.
- After money orders are entered into the system, the receipts are attached and they are left in an unsecured bin in the middle of the mailroom until they are transported to the Business Office.

At the Washington Correctional Center for Women:

- No one was reconciling the bank deposit to the daily money order list.

Cause of Condition

Department management has not put policies and procedures in place to establish adequate controls over cash receipting in the mailrooms because inmates do not have access to the mailrooms so they perceive the money to be safe. Management was not aware of the receipting system deficiencies. Further, not all staff members working in the mailrooms are adequately trained.

Effect of Condition

The Department cannot ensure all funds received through the prison mailrooms were receipted and deposited. These weaknesses impair the Department's ability to prevent or detect errors and irregularities in a timely manner, if at all.

Recommendation

We recommend the Department:

- Ensure two people are present at all times when mail containing money is opened.
- Ensure all money received is receipted immediately upon opening the mail.
- Establish and follow a cash-receipting system that tracks all cash receipts, cannot have records permanently deleted and fixes responsibility for each transaction.
- Create and maintain a log to document transfers of funds from one person to another by an exchange of receipts acknowledging responsibility of the funds.

Department's Response

The Department of Corrections would like to thank the State Auditor's Office for their assistance during the current audit.

The Department has reviewed the recommendations of the State Auditor Office. Unfortunately, Department does not currently have resources to replace the current cash-receipting system, but will make sure each employee has his or her own unique logon and password. Additionally, we will improve the process for opening mail to provide better controls. We concur with the other State Auditor's recommendations and will work with staff to make sure they abide by these recommendations.

Auditor's Remarks

We thank the Department for its cooperation and assistance throughout the audit. We will follow up during our next audit.

Applicable Laws and Regulations

RCW 43.88.160, Fiscal management, Powers and duties of officers and agencies, states in part:

The director of the Office of Financial Management (OFM), as an agent of the governor:

Develop and maintain a system of internal controls and internal audits comprising methods and procedures to be adopted by each agency that will safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies for accounting and financial controls. The system developed by the director shall include criteria for determining the scope and comprehensiveness of internal controls required by the classes of agencies, depending on the level of resources at risk. Each agency head or authorized designee shall be assigned the responsibility and authority for establishing and maintaining internal audits following the standards of internal auditing of the Institute of Internal Auditors

SAAM 20.10.30, Applicability, states in part:

This chapter is applicable to and binding on all agencies of the state of Washington, unless otherwise exempted by statute or rule. The Budget and Accounting Act (RCW 43.88.020) defines the term "Agency" to mean and include . . . every state office, officer, each institution, whether educational, correctional, or other, and every department, division, board and commission, except as otherwise provided

SAAM 20.15.30, Who is responsible for internal control?

Each agency, regardless of size, is required to adopt methods to periodically assess risk and to develop, implement, and review its system of internal controls. The methods should be tailored to the specific needs of the agency.

SAAM 20.15.30.a states:

The agency head or authorized designee is ultimately responsible for identifying risks and establishing, maintaining, and reviewing the agency's system of internal control. If the agency head delegates this responsibility, the designated person should have sufficient authority to carry out these responsibilities. Normally, this person is a senior agency manager who does not serve in the internal audit function.

SAAM 20.25.30.a states in part:

The following are descriptions of some commonly used control activities. This is not an exhaustive listing of the alternatives available to management:

Verification – Controls activities in this category include a variety of computer and manual controls designed to provide reasonable assurance that all accounting information has been correctly captured.

Reconciliation – Control activities in this category are designed to provide reasonable assurance of the accuracy of financial records through the periodic comparison of source documents to data recorded in accounting information systems.

Physical security over assets – Control activities in this category are designed to provide reasonable assurance that assets are safeguarded and protected from loss or damage due to accident, natural disaster, negligence or intentional acts of fraud, theft, or abuse.

Segregation of duties – Control activities in this category reduce the risk of error and fraud by requiring that more than one person is involved in completing a particular fiscal process.

Education, training and coaching – Control activities in this category establish key performance indicators for the agency that may be used to identify unexpected results or unusual trends in data which could indicate situations that require further investigation and/or corrective actions. Evaluations may be done at multiple levels within the agency, as appropriate: the agency as a whole; major initiatives; specific functions; or specific activities.

SAAM 20.25.30.b states in part:

In those cases where staffing may prohibit or restrict the appropriate segregation of duties, management must either have more active oversight of operations or utilize personnel from other units to the extent possible as compensating controls.

Status of Prior Audit Findings

State of Washington Department of Corrections

The status of findings contained in the prior years' accountability audit reports of the Department of Corrections is provided below:

1. Public funds were misappropriated from the Offender Welfare and Betterment fund at McNeil Island Correction Center.

Report No. 1000494, dated January 20, 2009

Background

A Department employee misappropriated at least \$166,200 from the McNeil Island Correctional Center's Welfare and Betterment Fund from 2003 through 2007, as well as one check for \$3,800 from the Vocational Education Fund. We recommended the Department seek recovery of \$170,000 in misappropriated public funds plus audit costs.

We determined the Department did not have adequate segregation of duties or monitoring in place to ensure all payments from the fund were properly authorized and independently reviewed. The employee had the ability to issue checks, make changes to the fund general ledger, unrestricted access to the safe containing blank fund check stock, and was responsible for the reconciliation of the monthly bank statements to the general ledger. Management's review of monthly reconciliations was insufficient to detect the improper activity.

Status

We have determined that the prior year loss has been prosecuted and the control weaknesses at the McNeil Island Correctional Center that allowed the loss to go undetected have been adequately addressed. We consider this finding to be resolved.

2. The Department of Corrections does not have adequate internal controls over local funds.

Report No. 1000494, dated January 20, 2009

Background

We determined there was not an adequate segregation of duties in the Department's Trust Accounting System (TAS) at the McNeil Island Correctional Center to prevent or detect misappropriations. We found 28 employees had levels of access that gave them the ability to create trust accounts, create debt obligations against offender trust accounts, generate checks and reconcile system activity at month's end. These abilities

would allow any employee to circumvent controls, generate fraudulent checks and alter the general ledger and/or monthly reconciliations to avoid detection.

We also determined that local account reconciliations were not being submitted to Department headquarters monthly as required by Department policy.

Status

The Department has made significant improvements in its controls over local funds at the McNeil Island Correctional Center. We also found most local account reconciliations are being sent to Department headquarters as required. However, we did note some minor issues during the current audit that were communicated to management. We will review this area again during the next year's audit.



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver our services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

State Auditor
Chief of Staff
Deputy Chief of Staff
Chief Policy Advisor
Director of Audit
Director of Special Investigations
Director for Legal Affairs
Director of Quality Assurance
Local Government Liaison
Communications Director
Public Records Officer
Main number
Toll-free Citizen Hotline

Brian Sonntag, CGFM
Ted Rutt
Doug Cochran
Jerry Pugnetti
Chuck Pfeil, CPA
Jim Brittain, CPA
Jan Jutte, CPA, CGFM
Ivan Dansereau
Mike Murphy
Mindy Chambers
Mary Leider
(360) 902-0370
(866) 902-3900

Web Site
Subscription Service

www.sao.wa.gov
<https://www.sao.wa.gov/EN/News/Subscriptions/>