

STATE OF WEST VIRGINIA

AUDIT REPORT

OF

THE HUTTONSVILLE CORRECTIONAL CENTER

INMATE TRUSTEE DRAWING ACCOUNT
INMATE TRUSTEE SAVINGS ACCOUNT
COMMISSARY / EXCHANGE ACCOUNT
TRAVEL AND DISCHARGE ACCOUNT
ARTS AND CRAFTS PROGRAM ACCOUNT
EMPLOYEE BOOSTERS ACCOUNT
BURIAL / FLOWERS FUND ACCOUNT
INMATE BENEFIT FUND - FUND 6383

FOR THE PERIOD

JULY 1, 2002 - JUNE 30, 2004



OFFICE OF THE LEGISLATIVE AUDITOR

CAPITOL BUILDING

CHARLESTON, WEST VIRGINIA 25305-0610

THE HUTTONSVILLE CORRECTIONAL CENTER

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WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

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CHARLESTON, WEST VIRGINIA 25305-0610

The Joint Committee on Government and Finance:

In compliance with the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, we have examined special revenue accounts of the Huttonsville Correctional Center.

Our examination covers the period July 1, 2002 through June 30, 2004. The results of this examination are set forth on the following pages of this report.

Respectfully submitted,


Theford L. Shanklin, CPA, Director
Legislative Post Audit Division

TLS/ela, jdb

THE HUTTONSVILLE CORRECTIONAL CENTER

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THE HUTTONSVILLE CORRECTIONAL CENTER

EXIT CONFERENCE

We held an exit conference on November 18, 2004 with two Assistant Commissioners, the Director of Administrative Services for the Division of Corrections, the Warden, and other representatives of the Huttonsville Correctional Center and all findings and recommendations were reviewed and discussed. The agency's responses are included in bold and italics in the Summary of Findings, Recommendations and Responses and after our findings in the General Remarks section of this report.

THE HUTTONSVILLE CORRECTIONAL CENTER

INTRODUCTION

The Huttonsville Correctional Center is located on a farm near Huttonsville, in Randolph County, approximately 18 miles south of Elkins on U.S. Route 250. It was created by an act of the Legislature in 1937 to relieve overcrowding at the West Virginia Penitentiary. It remained a branch of the parent institution until 1947, at which time the Legislature established as a separate entity – the West Virginia Medium Security Prison. In 1970, the Center received its current name by legislative act.

With the recent completion of a new 240 bed addition, the capacity of the Huttonsville Correctional Center is 890. Living quarters at this facility consist of military style dormitories in the original building and single cell housing in the new units. A Behavioral Improvement Unit and an Intake Unit were established upon the opening of the new additions. Huttonsville Correctional Center is the fifth largest employer in Randolph County with a staff of 300.

Many educational programs, both academic and vocational, are offered to inmates by the State Department of Education. These classes provide the inmates with an opportunity to engage in rehabilitation efforts during their incarceration. Inmates are able to attend classes in the Adult Basic Education Program to work towards or obtain GED certification. Vocational courses offered to inmates include auto mechanics, auto body, welding, machine shop, carpentry, masonry, electrical, and computer lab.

Prison Industries operates a braille program and a furniture plant at Huttonsville. Textbooks are transcribed into braille and distributed throughout the United States. The furniture

plant builds and refinishes furniture for various agencies. In addition to furniture building, arts and crafts classes are offered at the institution. The Arts and Crafts Program provides opportunities for artwork projects, as well as, leather working and wood working crafts.

The primary form of employment for the inmates has always been general farm work. By Act of the Legislature in 1977, the 5,000-acre farm was turned over to the Farm Management Commission with a resultant change of agricultural emphasis from labor-intensive general purpose farming to beef cattle production; the single largest inmate labor effort is community service projects.

THE HUTTONSVILLE CORRECTIONAL CENTER

ADMINISTRATIVE OFFICERS AND STAFF

JUNE 30, 2004

William S. Haines Warden
Teresa S. Waid Deputy Warden
Phillip Hanline Associate Warden of Administrative Services
Bill Iseli Associate Warden of Operations
Diana "Robin" Miller Associate Warden of Programs
John Murphy Associate Warden of Security
Sheila Gregorie Business Manager

THE HUTTONSVILLE CORRECTIONAL CENTER

SUMMARY OF FINDINGS, RECOMMENDATIONS AND RESPONSES

Lack of Effective System of Internal Controls

1. During the course of our examination, it became apparent to us, based on observed noncompliance with the West Virginia Code and other applicable rules and regulations, the Huttonsville Correctional Center did not have an effective system of internal controls in place to ensure compliance with applicable State laws, rules and regulations.

Auditors' Recommendation

We recommend the agency comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, as amended, and establish a system of internal controls.

Agency's Response

We concur with this finding. To immediately address this issue, which we take very seriously, one of our Business Managers, also a CPA, will perform an on-site review on November 29 and 30, 2004, of current procedures in place. The individual will note the deficiencies and prepare a preliminary corrective measures flowchart plan to address all issues by December 3, 2004. All recommended corrective measures will be implemented on December 6, 2004. The individual will return to Huttonsville Correctional Center within the following 30 days for a follow-up review to insure the measures have been implemented accordingly and report progress to the Commissioner and other executive staff. (See pages 19-23.)

TRAVEL AND DISCHARGE ACCOUNT:

Cash Receipts Embezzled From Local Bank Account

2. We noted a former Huttonsville employee embezzled \$11,190.68 from two local bank accounts. Of that amount originally diverted for personal use, \$3,559.00 was later deposited to the proper accounts six weeks to six months after receipt. The former employee was found guilty of embezzlement and subsequently repaid the misappropriated funds.

Auditors' Recommendation

We recommend the agency comply with its own Institutional Operational Procedures 1.17 and 1.11 and ensure that all receipts are properly recorded deposited in the time required.

Agency's Response

Segregation of duties and internal supervisory control on a consistent basis has been implemented.

Huttonsville Correctional Center will revise Operational Procedure 1.17 to state "...all deposits will be made within twenty-four normal business hours."

The Associate Warden of Administration will be responsible to ensure compliance with the implementation of new procedures and random periodic audit sampling of account providing report of any findings and corrective action. (See pages 23-26.)

Funds Expended Without Proper Authorization

3. Seven payments totaling \$970.27 were made from the Travel and Discharge local account without being properly authorized. One of the payments related to a \$768.00 travel advance check that was processed without the name of the payee being written on the check.

Auditors' Recommendation

We recommend the Huttonsville Correctional Center staff comply with their own Institutional Operational Procedure 1.11 by ensuring all disbursements are properly authorized.

Agency's Response

This practice will not continue. The trustee clerk has been notified that two signatures are required, with no exceptions, as well as the payee. We are reviewing signature authority for these accounts to ensure that sufficient management staff is authorized who can be located quickly to ensure two authorized signatures are affixed prior to issuing checks. (See pages 26-28.)

INMATE TRUSTEE ACCOUNTS:

Petty Cash Funds Established Without Authorization

4. Our examination revealed a petty cash fund and a change fund were established without the required State Treasurer's authority. More importantly, we discovered cash receipts including monies from inmate visitation, proceeds of inmate arts and crafts sales, cash tips given to inmates for auto mechanic work, as well as funds from other sources that are to be deposited into the Inmate Trustee Drawing Account are used to "replenish" the petty cash fund.

Auditors' Recommendation

We recommend Huttonsville obtain an authorization for imprest funds from the State Treasurer in compliance with Chapter 12, Article 2, Section 2 and Chapter 25, Article 1, Section 3a of the West Virginia Code, as amended, and deposit all inmate funds into the

Trustee Drawing Account in accordance with Division of Corrections' Policy Directive 119.00.

Agency's Response

We will process a request to establish a petty cash fund from the State Treasurer's Office for the purpose of cashing correctional officer travel advance and to cash inmate's discharge/parole allowance or inmates trustee balance up to maximum of \$150.00 to pay for food and transportation costs upon discharge/parole. The practice of cashing personal employee checks ceased per Warden's directive on January 17, 2003.

All money due inmates will be deposited accordingly and the petty cash fund, when approved by the State Treasurer's Office, will only consist of travel and parole advance monies we receive from our General Revenue Fund through the State Auditor's Office for those specific purposes. Currently the change fund for Commissary "punch card" sales is \$22.04. We are in the process of evaluating proposals to contract with a private company to provide all commissary services including sales to staff. (See pages 28-31.)

Authorization of Inmate Account Write-Offs

5. During our review of Huttonsville's Trustee Drawing Account, we found write-offs of inmate accounts are not authorized by the appropriate level of management. We also noted that there was not any segregation of duties in several accounting functions relating to the account.

Auditors' Recommendation

We recommend the agency comply with its own Institutional Operational Procedure 1.11 and Chapter 14, Article 1, Section 18 and Chapter 25, Article 1, Section 8 of the West Virginia Code and ensure that all write-offs are legitimate and properly authorized.

Agency's Response

We will initiate a Division policy, through the assistance of an Assistant Attorney General and Legislative action, if necessary, for "write-offs" of uncollected debt for medical co-pay and legal postage to ensure a written procedure/standard is in place, is legitimate, is properly authorized, and is applied consistently throughout the agency for un-collectible inmate medical co-pay and/or legal postage.

In reference to the West Virginia Code not specifically authorizing the institutions to create deficit inmate account balances or establish an account receivables, it states "... the charges assessed against an inmate may be deducted directly from the inmate's trustee account without the inmate's consent..." and we are following the law. (See pages 31-35.)

Inmate Rent

6. We noted agency personnel failed to collect rent from 39 inmates workers in the amount of \$5,174.18 in fiscal year 2003 and \$3,881.25 in fiscal year 2004 for a total of \$9,055.43. Inmates who work outside the institution for the Farm Commission, the Cass Scenic Railroad, the Division of Highways, etc. are required to pay 30% of their monthly earnings as rent if those earnings exceed \$100.00 per month.

Auditors' Recommendation

We recommend the agency comply with its own Institutional Operational Procedure 1.17.01 or request rent waivers from the Commissioner of the Division of Corrections for inmate farm workers.

Agency's Response

Huttonsville Correctional Center failed to request a waiver from the Commissioner. (See page 35-37.)

Late Deposit of Inmate Trustee Account Receipts

7. The agency failed to deposit Inmate Trustee Drawing Account cash receipts totaling \$46,604.26 and Inmate Trustee Savings Account cash receipts totaling \$83,815.39 in accordance with its own Institutional Operational Procedure as required.

Auditors' Recommendation

We recommend the agency comply with its own Institutional Operational Procedure 1.17, as amended.

Agency's Response

New procedures (Revised Institutional Procedures 1.17) have been implemented that bank deposits will occur three times per week (Monday-Wednesday-Friday). (See pages 37-39.)

Unrecorded Transactions

8. Our examination of Trustee Drawing Account disbursements revealed four transactions totaling \$40.83 were not recorded on the account's general ledger. The expenditures related to bank charges that were to be reimbursed by a State fund. In addition, we found the reimbursements were made from the Inmate Benefit Fund - Fund 6383 and these "bank charges" were not an authorized expenditure of that fund.

Auditors' Recommendation

We recommend Huttonsville comply with Policy Directive 119.00 and Chapter 25, Article 1, Section 3b of the West Virginia Code, as amended, by posting all transactions to the appropriate general ledgers and charging those expenses to the proper fund. The trustee account is required by the West Virginia Code and expenses for maintaining the fund should be paid from State funds.

Agency's Response

"Bank charges" for the Trustee Drawing Account are not to be paid from the Inmate Benefit Fund. We erred in these disbursements which totaled \$40.83. The Huttonsville Correctional Center understands that bank charges are to be paid from the General Revenue Fund Account. (See pages 39-41.)

COMMISSARY OPERATIONS

Perpetual Inventory

9. The Commissary purchased merchandise for resale totaling \$1,665,343.37 during our two year audit period; however, we found the Commissary's perpetual inventory can not be relied on to provide accurate inventory information. According to agency personnel, an accurate inventory can not be maintained because of problems with the Commissary's inventory program software.

Auditors' Recommendation

We recommend the agency comply with Division of Corrections Policy Directive 119.00 and repair the current program or obtain a system that will keep an accurate perpetual inventory. We also recommend some inventory procedure be established to allow for the preparation of accurate financial statements for this account monthly.

Agency's Response

A decision was made months ago after careful review, research and discussion with other states Division of Corrections and our own management staff that the Division of Corrections does not have the expertise and staff resources to appropriately manage and maintain million dollar "grocery stores" in our correctional institutions. Therefore, we

have bid a Request for Proposal to “outsource” this total service.

Until such time as an independent contractor provides the Commissary services, we will perform monthly inventories. This will enable us to provide a more accurate profit and loss statement. (See pages 41-44.)

Commissary Receipts

10. According to agency records, Commissary receipts totaled \$895,519.92 during the 2003 fiscal year and \$965,079.17 during the 2004 fiscal year; however, we were unable to substantiate Commissary sales receipts based on the supporting documentation provided to us by the agency.

Auditors’ Recommendation

We recommend the agency comply with Division of Correction’s Policy Directive 119.00 and maintain supporting documentation that will substantiate Commissary sales receipts.

Agency’s Response

A decision was made months ago after careful review, research and discussion with other states Division of Corrections and our own management staff that the Division of Corrections does not have the expertise and staff resources to appropriately manage and maintain million dollar “grocery stores” in our correctional institutions. Therefore, we have bid a Request for Proposal to “outsource” this total service.

Until such time as an independent contractor provides the Commissary services, we will perform monthly inventories. This will enable us to provide a more accurate profit and loss statement. (See pages 44-46.)

Commissary Purchasing Procedures

11. Our examination of Commissary disbursements revealed that neither requisitions nor purchase orders, although part of standard purchasing procedures, were prepared for any of the 29 purchases tested. As a result, unauthorized Commissary purchases may have been made.

Auditors' Recommendation

We recommend Huttonsville comply with Division of Corrections Policy Directive 126.00 and establish and follow standard purchasing procedures.

Agency's Response

A decision was made months ago after careful review, research and discussion with other states Division of Corrections and our own management staff that the Division of Corrections does not have the expertise and staff resources to appropriately manage and maintain million dollar "grocery stores" in our correctional institutions. Therefore, we have bid a Request for Proposal to "outsource" this total service.

Until such time as an independent contractor provides the Commissary services, we will perform monthly inventories. This will enable us to provide a more accurate profit and loss statement. (See pages 46 and 47.)

ARTS AND CRAFTS PROGRAM:

Program Purchases and Materials Inventory

12. Arts and Crafts Program material and supply purchases totaling \$18,392.07 were made during our audit period; however, we were unable to determine if these materials and supplies were actually used for the program. In addition, we found program material purchases were not inventoried and individual inmate purchases could not be traced to specific vendor invoices showing that the correct unit cost was charged to the inmates

making material purchases. If the materials were used for the program, we were still unable to determine if the inmates were charged the correct amount for their art and craft projects.

Auditors' Recommendation

We recommend the agency comply with its own Institutional Operational Procedure number 1.19 and keep a perpetual inventory of arts and crafts material purchases and maintain records that can be used to trace individual inmate purchases to specific vendor invoices.

Agency's Response

The findings are correct on the Arts and Crafts Program due to our inability to find supporting records.

Procedures are currently in place to maintain inventory, all material purchases by inmates, and to trace individual inmate purchases to specific Vendor invoices, as well as all documented inmate sales records and proceeds to appropriate inmates. (See pages 47-49.)

Program Receipts

13. The agency was unable to provide us with Arts and Crafts Program sales records supporting \$831.50 in artwork sales proceeds credited to eight inmates. Program collections were recorded on a cash receipts book, but we were unable to determine if inmates received the actual sales price for artwork sold because agency personnel could not locate program sales records.

Auditors' Recommendation

We recommend Huttonsville comply with Institutional Operational Procedure 1.19 and maintain documentation showing the sales prices set by the inmates and a description of what the inmates provided for sale.

Agency's Response

The findings are correct on the Arts and Crafts Program due to our inability to find supporting records.

Procedures are currently in place to maintain inventory, all material purchases by inmates, and to trace individual inmate purchases to specific Vendor invoices, as well as all documented inmate sales records and proceeds to appropriate inmates. (See pages 49-51.)

EMPLOYEE BOOSTER ACCOUNT

Employee Booster Fund Receipts

14. During our audit period we noted 23 instances totaling \$2,690.35 of vending machine commissions from Coca-Cola, Pepsi, and Tom's Foods being remitted to the Employee Booster Fund instead of being deposited into the State general revenue fund. More importantly, we found Huttonsville did not obtain bids for the vending services or have agreements with the aforementioned vendors.

Auditors' Recommendation

We recommend the agency comply with Chapter 6B, Article 2, Section 5 of the West Virginia Code and Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended, and Sections 2.0 and 6.1.3 of the Department of Administration's Purchasing Regulations.

Agency's Response

We have requested the assistance of the Assistant Attorney General on this issue. He will initiate a request to the Ethics Commission regarding profit from vending machines used only by State employees, although on State property, being deposited into the employee association fund versus the State's General Revenue Fund. (See pages 51-54.)

INMATE BENEFIT FUND:

Authorization of Inmate Benefit Fund Disbursements

15. We found 23 out of 25 purchases or disbursements tested were not supported by the required voucher (letter) of authorization. As a result, expenditures totaling \$301,055.68 charged to the Inmate Benefit Fund - Fund 6383 were not properly authorized in accordance with agency policy.

Auditors' Recommendation

We recommend the agency comply with Division of Corrections Policy Directive 127.00.

Agency's Response

Policy Directive 127.00 will be rescinded by Commissioner Rubenstein as it was issued with contradictory language regarding State held accounts.

This language was carried forward into this policy from the old policy when the Inmate Benefit Fund was a local bank account directly under the Warden's authority. (See pages 54 and 55.)

Purchasing Card Log Sheets

16. Inmate Benefit Fund - Fund 6383 purchasing card purchases totaling \$91,722.33 were charged to the fund during the 2003 fiscal year and \$78,068.73 were charged to the fund during the 2004 fiscal year. However, Huttonsville did not have internal controls in place during our audit period to ensure cardholders completed, reconciled, and signed log sheets as required, nor to ensure purchasing card coordinators signed log sheets as required.

Auditors' Recommendation

We recommend Huttonsville establish controls to ensure compliance with Sections 7.2, 2.2 and 8.1 of the State Auditor's "State Purchasing Card Program Policies and Procedures."

Agency's Response

Upon our P-card Coordinator's discussion with members of the Huttonsville Correctional Center business staff, he did find that log sheets had not been done regularly before a review of P-card transactions.

As our P-card Coordinator began on-site inspections after July 2003, he informed those not maintaining the P-card log that the STARS system reconciliation would not meet the mandate of the West Virginia Code in reference to log sheets.

P-card log sheets have been kept since that time. Signatures were lacking on some and this issue is being addressed. Proper signatures will be obtained. (See pages 55-57.)

Late Deposit of Inmate Benefit Fund Receipts

17. Our examination revealed the agency failed to deposit 12 out of 44 Inmate Benefit Fund - Fund 6383 cash receipts totaling \$90,370.97 within twenty-four hours of receipt. The receipts were deposited three to 11 days late.

Auditors' Recommendation

We recommend the institution comply with Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended.

Agency's Response

Due to staff shortage, we were late in depositing funds. We have changed our deposit schedule to three times per week (Monday-Wednesday-Friday). This will allow us to comply with the West Virginia Code. (See page 58.)

HUTTONSVILLE CORRECTIONAL CENTER

GENERAL REMARKS

INTRODUCTION

We have completed a post audit of the Huttonsville Correctional Center's Inmate Trustee Drawing local account, Inmate Trustee Savings local account, Commissary local account, Travel and Discharge local account, Arts and Crafts local account, Employee Boosters local account, Burial/Flower Fund local account, and Inmate Benefit Fund - Unclassified - Fund 6383-099. The examination covers the period July 1, 2002 through June 30, 2004.

SPECIAL REVENUE ACCOUNT

The following special revenue account was assigned to the Huttonsville Correctional Center to pay for expenses that are beneficial to either a majority of the population or specific group of inmates and is not one for essential mandated services or commodities which must be furnished from State appropriation. The Warden is the only individual who may authorize a purchase or use of funds from this account. Types of revenues include telephone commissions, profits from commissary / exchange sales, donations, interest earned, and income from vending machines:

<u>Fund</u> <u>Number</u>	<u>Description</u>
6383-640.....	Inmate Benefit Fund

LOCAL ACCOUNTS

In order to have cash available for specific local operations, local accounts are used for managing funds required on a day-to-day basis. These local accounts are described as follows:

Inmate Trustee Account - Drawing and Savings

Records all moneys received and disbursed by the Huttonsville Correctional Center for deposit and withdraw from inmates' personal accounts.

Commissary / Exchange Account

The Commissary is a retail store within the correctional center which is operated for the benefit of the inmates for purchases of sundry products for personal use.

Travel and Discharge Account

An imprest fund at the correctional center for use in immediate cash advances for security travel. Also, funds are expended for parole discharge fees.

Arts and Crafts Fund Account

To receive funds from the sale of arts and crafts and record expenses related to such sales for inmate arts and crafts.

COMPLIANCE MATTERS

We tested applicable sections of the West Virginia Code, plus the Division of Correction's legislatively approved rules and regulations, as well as, other rules, regulations, policies, and procedures as they pertain to Huttonsville Correctional Center's fiscal matters. Our findings are discussed below.

Lack of Effective System of Internal Controls

During the course of our examination, it became apparent to us, based on the observed noncompliance with the West Virginia Code and other rules and regulations, the Huttonsville Correctional Center (Huttonsville) did not have an effective system of internal controls in place to ensure compliance with applicable State laws, rules and regulations. Management has not

implemented or developed an effective internal control system. Even after a documented embezzlement occurred, most of the internal control weaknesses that permitted the embezzlement to go undetected still existed during the remainder of our audit period.

Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, as amended, states in part,

“The head of each agency shall: . . .

(b) Make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency’s activities. . . .”

This law requires the head of each agency to have in place an effective system of internal controls in the form of policies and procedures to ensure the agency is in compliance with the laws, rules and regulations which govern it.

During the post audit of the Huttonsville Correctional Center, we found the following noncompliance with State laws and other rules and regulations: **(1)** A former Huttonsville employee embezzled \$11,190.68 from two local bank accounts. Of the amount originally diverted for personal use, \$3,559.00 was later deposited to the proper accounts. We noted several weaknesses in the controls over the local accounts that permitted the embezzlement to occur. **(2)** Seven payments totaling \$970.27 were made from the Travel and Discharge local account without being properly authorized. One of the payments related to a travel advance check in the amount of \$768.00 that was processed without the name of the payee being written on the check. In addition, the check was only endorsed using the Inmate Trustee Drawing Account’s stamp. **(3)** We discovered the agency established a petty cash fund and a change fund without the State Treasurer’s authority. More

importantly, we found inmate monies that are to be deposited into the Inmate Trustee Drawing Account are used to “replenish” the petty cash fund. During our two year audit period, we determined receipts totaling as much as \$135,645.96 could have been used to replenish the fund instead of being deposited directly to the Trustee Drawing Account as required. (4) During our review of Huttonsville’s Trustee Drawing local account, we found negative inmate account balances were written off the “Inmate Accounting System” without supervisory approval. (5) Agency personnel failed to collect rent from 39 inmates workers in the amount of \$5,174.18 in fiscal year 2003 and \$3,881.25 in fiscal year 2004 for a total of \$9,055.43. (6) The agency failed to deposit Inmate Trustee Drawing and Inmate Trustee Savings Account receipts totaling \$130,419.65 in the time frame required by Institutional Operational Procedure. (7) Four transactions totaling \$40.83 were not recorded on the Trustee Drawing Account “general ledger.” The expenditures related to bank charges for deposit tickets that were to be reimbursed by a State fund. (8) The Commissary purchased merchandise for resale totaling \$825,280.88 during the 2003 fiscal year and \$840,062.49 during the 2004 fiscal year; however, the Commissary’s perpetual inventory system cannot be relied upon to provide accurate inventory information. (9) We were unable to substantiate Commissary sales receipts totaling \$1,860,599.09 based on the supporting documentation provided to us by the agency. (10) Our examination of Commissary disbursements revealed that neither agency requisitions nor purchase orders, although part of standard purchasing procedures, were prepared for any of the 29 purchases tested. (11) We attempted to trace inmate arts and crafts materials purchases to vendor invoices or program inventory records. Program material and supply purchases totaling \$18,392.07 were made during our audit period; however, we were unable to determine if these materials and supplies were actually used for the Arts and Crafts Program. (12) The agency was unable to provide

us with Arts & Crafts Program sales records supporting \$831.50 in artwork sales proceeds credited to eight inmates. (13) During our audit period we noted twenty-three instances totaling \$2,690.35 of vending machine commissions from Coca Cola, Pepsi, and Tom's Foods being remitted to the Employee Booster Fund local bank account instead of being deposited into the institution's general revenue fund as required by statute. (14) Expenditures totaling \$301,055.68 charged to the Inmate Benefit Fund - Fund 6383 were not supported by the required voucher (letter) of authorization showing the expenditures were properly authorized. (15) Huttonsville did not have internal controls in place during our audit period to ensure cardholders completed, reconciled, and signed purchasing card log sheets as required, nor to ensure purchasing card coordinators signed log sheets as required. (16) We also noted the agency failed to deposit Inmate Benefit Fund - Fund 6383 receipts totaling \$90,370.97 within 24 hours of receipt as required.

We recommend the Huttonsville Correctional Center comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, as amended, and establish a system of internal controls.

Agency's Response

We concur with this finding. To immediately address this issue, which we take very seriously, one of our Business Managers, also a CPA, will perform an on-site review on November 29 and 30, 2004, of current procedures in place. The individual will note the deficiencies and prepare a preliminary corrective measures flowchart plan to address all issues by December 3, 2004. All recommended corrective measures will be implemented on December 6, 2004. The individual will return to Huttonsville Correctional Center within the following 30 days for a follow-up review to insure the measures have been implemented accordingly and report progress to the Commissioner and other executive staff. If necessary, the individual will define/refine

processes. Upon filling the Division's Internal Auditor position, the Internal Auditor will continue reviews and inspections on a scheduled basis. The Internal Auditor will also perform on-site reviews at all other locations to assist if necessary with the implementation of these corrective measures at any other institution.

TRAVEL AND DISCHARGE ACCOUNT:

Cash Receipts Embezzled From Local Bank Accounts

Our examination of cash receipts revealed a former Huttonsville employee embezzled \$11,190.68 from two local bank accounts. Of that amount originally diverted for personal use, \$3,559.00 was later deposited to the proper accounts six weeks to six months after receipt. However, cash collections received during our audit period and totaling \$7,631.68 (\$5,218.40 from the Travel and Discharge local account and \$2,413.28 from the Commissary local account) were never deposited by the Accounting Tech II. An internal report prepared by a member of the Division of Corrections Central Office staff disclosed additional Travel and Discharge and Commissary cash receipts totaling \$3,649.40 received between April 1997 and June 2002 were also embezzled and \$383.15 had been taken from a Commissary "cash box." The former employee was found guilty of embezzlement by Circuit Court and subsequently repaid the misappropriated funds.

During our review of Huttonsville's local bank account operations, we noted several weaknesses in the controls over the local accounts that permitted the embezzlement to go undetected. There was no segregation of duties or supervisory oversight in several key accounting functions. The same individual was responsible for handling cash collections, recording transactions, and performing bank reconciliations for various accounts. Although Huttonsville had an "Institutional Operational Procedure" in place requiring receipts to be deposited the day they were collected, the

former employee was able to exploit the weak controls because there is no supervisory oversight to ensure cash receipts are deposited in a timely manner. The employee accomplished the misappropriation using monies received as settlements of cash advances to correctional officers assigned to the transportation unit and cash receipts collected from the Commissary for staff sales.

Transporting inmates sometimes requires correctional officers to stay overnight on their assignments. When overnight stays are required, the transporting officers are provided with travel advance checks written from the Travel and Discharge local account. After the officers return from their assignment, they complete a "travel expense settlement form" and return any remaining cash advance for redeposit. Once the remainder of the travel advances were collected, the Accounting Tech II would write the correctional officer a receipt from the Travel and Discharge Receipt Book, but the reimbursements were not recorded in the general ledger until the money was actually deposited, and in several instances it never was deposited. Commissary cash receipts relating to staff sales were handled in a similar manner.

Huttonsville Correctional Center's Institutional Operational Procedure 1.17 "Cash Management - Deposit of Monies" sets forth the requirement for deposits to be made timely and states in part,

"Cash or checks received by various programs within the facility with their own checking accounts will be deposited to that particular account the day received, if within regular banking hours. Monies that cannot be deposited the same day will be secured in the Trustee Clerk's safe until a deposit can be made the next banking day. . . ."

In addition, Institutional Operational Procedure 1.11 "Fiscal Control" states in part,

"D. Huttonsville Correctional Center Fiscal Areas/Responsibility

1. The Huttonsville Correctional Center Associate Warden of Administration and Business Manager are hereby designated as the

individuals responsible for ensuring that the correct and proper standards are in place and maintained for the control and/or utilization of the below-noted fiscal areas.

a. Internal Controls . . .

2. The Huttonsville Correctional Center Associate Warden of Administration shall work in conjunction with the Huttonsville Correctional Center Warden, Business Manager and Travel Clerk in fulfilling this responsibility.”

According to Huttonsville’s Business Manager, bank statements and reconciliations were balanced and compared with the check book registers (general ledgers), but not to the subsidiary receipt ledgers. The Associate Warden of Administrative Services stated internal audits of the accounts involving cash will be conducted in the future.

We recommend the agency comply with its own Institutional Operational Procedures 1.17 and 1.11 and ensure that all receipts are properly recorded and deposited in the time required.

Agency’s Response

Segregation of duties and internal supervisory control on a consistent basis has been implemented. In addition, a vacant position, previously assigned to the Commissary, has been reassigned to the Business Office for additional oversight and random periodic audit sampling of cash accounts.

Two individuals, versus one individual during the audit period reviewed, are involved in the cash receipts process and bank deposit process. Cash sales in the Commissary have been discontinued.

One individual is responsible for selling Commissary “punch cards” in the Business Office and recording card sales. The individual is responsible to total cash received from sales and prepare bank deposit. Individual initials bank deposit. Another individual totals card sales for the corresponding bank deposit to ensure deposit totals card sales receipts. This individual also counts

cash and verifies by also initialing bank deposit that card sales receipts equal cash collected and bank deposit reflects the same.

Huttonsville Correctional Center will revise Operational Procedure 1.17 to state “. . . all deposits will be made within twenty-four normal business hours.” Huttonsville Correctional Center has also implemented a procedure for all monies collected to be deposited three times weekly (Monday-Wednesday -Friday) rather than twice weekly and assigned bank deposit duty as a function of one employee, rather than who was available. Staff shortage was also an issue in the past which partially contributed to the lack of internal controls.

The Associate Warden of Administration will be responsible to ensure compliance with the implementation of new procedures and random periodic audit sampling of account providing report of any findings and corrective action. The report shall be maintained in an institutional file and a copy sent to the Division of Corrections Internal Auditor in the Central Office. If necessary, the Internal Auditor will take appropriate action to assist in any findings. The Division of Corrections Internal Auditor will also conduct random audit sampling of cash accounts, as has been the practice over the past two years. It should be noted that an internal review of the Travel/Discharge Account by the Huttonsville Correctional Center prompted the confession.

Funds Expended Without Proper Authorization

Our audit revealed a number of payments were made from the Travel and Discharge local account without being properly authorized. Three checks totaling \$135.14 were processed without any authorizing signatures and three checks totaling \$67.13 were processed with only one authorizing signature even though two were required. We noted a travel advance check in the amount

of \$768.00 was processed without the name of the payee being written on the check. In addition, the check with the missing payee was only endorsed using the Inmate Trustee Drawing Account's stamp.

Institutional Operational Procedure 1.11 "Fiscal Control" states in part,

"D. Huttonsville Correctional Center Fiscal Areas/Responsibility

1. The Huttonsville Correctional Center Associate Warden of Administration and Business Manager are hereby designated as the individuals responsible for ensuring that the correct and proper standards are in place and maintained for the control and/or utilization of the below-noted fiscal areas.

- a. Internal Controls . . .
- b. Signature Control of Checks . . .

2. The Huttonsville Correctional Center Associate Warden of Administration shall work in conjunction with the Huttonsville Correctional Center Warden, Business Manager and Travel Clerk in fulfilling this responsibility."

Agency staff were unable to tell us why the checks were processed without being properly authorized. However, since they were processed it is evident that control procedures must be established and followed to prevent this from happening in the future. We subsequently determined the check was cashed by the intended correctional officer and the travel advance was later properly settled.

We recommend the Huttonsville Correctional Center staff comply with their own Institutional Operational Procedure 1.11 by ensuring all disbursements are properly authorized.

Agency's Response

Checks issued from the Travel and Discharge Account require two signatures and the name of the payee. There are times that transportation contacts the Business Office that an officer will need an advance for an inmate related transport. The Transportation Unit sometimes

does not know which officer at the time the request is made. The clerk has issued the check, omitting the payee's name, and then inadvertently failed to insert the name when the assigned officer picks up the check. This is not the norm. There are also occasions when an officer leaves on an urgent trip after regular business hours and it was not possible to locate or wait for the other individual to return to the facility for signature. This practice will not continue. The trustee clerk has been notified that two signatures are required, with no exceptions, as well as the payee. We are reviewing signature authority for these accounts to ensure that sufficient management staff is authorized who can be located quickly to ensure two authorized signatures are affixed prior to issuing checks.

The Associate Warden of Administration will initiate random reviews of checks issued to ensure compliance.

INMATE TRUSTEE ACCOUNTS:

Petty Cash Funds Established Without Authorization

We discovered during our examination of the local bank accounts that the agency maintains a petty cash fund and a change fund; however, the petty cash fund and the change fund were set up without the required State Treasurer's authority. The petty cash fund, which was established as part of the Inmate Trustee Drawing Account, usually ranges from \$3,000 to \$4,000 and is used by the agency to cash employee travel advances and other employee checks. More importantly, we found cash receipts including monies from inmate visitation, proceeds of inmate arts and craft sales, cash tips given to inmates for auto mechanic work, as well as funds from other sources that are to be deposited into the Inmate Trustee Drawing Account are used to "replenish" the petty cash fund. We determined, on average, that cash collections totaling \$5,651.92 per month are used

to replenish the petty cash fund. During our two year audit period, receipts totaling as much as \$135,645.96 could have been used to replenish the fund instead of being deposited directly to the Trustee Drawing Account as required. Receipts for the aforementioned funds are forwarded to the Trustee Clerks and credited to the individual inmate accounts, but the monies are being placed in the petty cash fund. Monies are diverted to the petty cash fund as necessary to maintain a sufficient petty cash balance in the fund. As a result, inmate funds that are to be deposited directly into the Inmate Trustee local bank accounts are instead placed in the petty cash fund and used for the operation of the institution.

In addition, the agency established a change fund for commissary “punch card” sales made to agency staff. Based on conversations with agency personnel we found there isn’t a set or minimum dollar amount maintained for the change fund.

Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended, states in part,

“ . . . (d) The State Treasurer shall have the authority to establish an imprest fund or funds in the office of any state agency or institution making proper application to the board. . . .”

Chapter 25, Article 1, Section 3a of the West Virginia Code regarding trustee accounts and funds, earnings and personal property of inmates states in part,

“...The warden or administrator of each institution shall receive and take charge of the money and personal property, as define by policy, of all inmates in his or her institution and all money or personal property, as defined by policy, sent to the inmates or earned by the inmates as compensation for work performed while they are domiciled there. The warden or administrator shall credit the money and earnings to the inmate entitled to it and shall keep an accurate account of all the money and personal property so received, which account is subject to examination by the state commissioner of corrections. The warden or administrator shall deposit the moneys in one or more responsible banks in accounts to be designated a “trustee fund.”

Division of Corrections Policy Directive 119.00 states in part,

“...E. Cash Control - The administrators of these programs will not keep any cash on hand, nor will they make any cash purchases. Any cash or checks will be deposited, either in the program’s checking account or in such a manner as approved by the institution/facility/center’s Business Manager.”

It has been Huttonsville’s longstanding practice to use inmate monies to replenish the petty cash fund.

Deposits are not being made in accordance with institutional procedure.

We recommend Huttonsville obtain an authorization for imprest funds from the State Treasurer in compliance with Chapter 12, Article 2, Section 2 and Chapter 25, Article 1, Section 3a of the West Virginia Code, as amended, and deposit all inmate funds into the Trustee Drawing Account in accordance with Division of Corrections’ Policy Directive 119.00.

Agency’s Response

We will process a request to establish a petty cash fund from the State Treasurer’s Office for the purpose of cashing correctional officer travel advances (when it is not possible for the officer to go to the bank prior to departure or if bank is closed) and to cash inmate’s discharge/parole allowance or inmates trustee balance up to maximum of \$150.00 to pay for food and transportation costs upon discharge/parole (only in an emergency situation and not possible to go to the bank). The practice of cashing personal employee checks ceased per Warden’s directive on January 17, 2003.

The money retained in the “petty cash fund” is not used for purchases or expended for any other purpose other than the above. It is not used in the truest sense for the operation of the institution as indicated on the report. No inmate suffers from this “petty cash fund” as all money due inmates is posted to the inmate’s drawing account ledger. If every inmate were released, the money in the petty cash fund would be deposited in the bank and disbursed according

to trustee account balances. All money due inmates will be deposited accordingly and the petty cash fund, when approved by the State Treasurer's Office, will only consist of travel and parole advance monies we receive from our General Revenue Fund through the State Auditor's Office for those specific purposes.

Currently the change fund for Commissary "punch card" sales is \$22.04. We are in the process of evaluating proposals to contract with a private company to provide all commissary services including sales to staff. We anticipate an award by mid January 2005 and we will discontinue all State operated commissaries with no need for a change fund.

Authorization of Inmate Account Write Offs

Write-offs of inmate accounts are not authorized by the appropriate level of management. During our review of Huttonsville's Trustee Drawing local account, we found negative inmate account balances were written-off the "Inmate Accounting System" without supervisory approval. In addition, we also noted that there was not any segregation of duties in several accounting functions. Specifically, the same individual, the Trustee Clerk, is responsible for processing Trustee Drawing Account cash receipts, handling petty cash fund monies, and posting inmate medical charges, restitution judgements, and postage expenses for legal correspondence to the individual inmate accounts. Furthermore, the same individual is responsible for writing-off negative inmate account balances created by the above expenses.

One of Huttonsville's trustee clerks explained the medical charges posted to the individual inmate accounts are initiated by a voucher completed by a nurse or doctor in "Correctional Medical Services" facility located in the institution's main building. If the inmate cannot afford medical care, Huttonsville still provides medical services and charges the inmate's Trustee Drawing

account for their portion of the medical expense which can create a negative inmate account balance. If the inmate is discharged or transferred to another institution leaving a negative inmate account balance, the Trustee Clerk will write-off the negative account balance if they believe the charge is “feasibly uncollectible.” In other words, the write-offs are performed at the Trustee Clerk’s discretion without following any type of written procedure. If the Trustee Clerk is going to write-off negative inmate account balances, there needs to be a written standard or procedure applied evenly to avoid the perception of favoritism or prejudice. The amount of the write-off is “charged back” to the medical account administrated by the Division of Corrections Central Office.

Postage expenses for legal correspondence are handled by the Trustee Clerk in a similar manner. According to agency personnel, inmates are entitled to communicate with their attorneys and other legal parties even if they have an insufficient balance in their inmate account to pay for the postage. Hence, an inmate could continue to incur legal postage expenses regardless of their account balance. Huttonsville’s Post Office receives a “Low Balance” report from the institution’s Business Office once a day, but the Post Office is not notified if the inmate’s account has been written-off. Negative inmate account balance are also charged against the Post Office if the inmate is discharged or transferred to another institution.

Restitution is also charged to inmates for damages caused to State or personal property. Restitution payments can be made by inmates to Huttonsville, other institutions, Circuit Courts, and other third parties. If an inmate owing restitution is transferred to another facility and no restitution payment is received by the Trustee Clerk within three months, the Trustee Clerk deletes the inmate’s account from the inmate accounting system. Any payments received after the inmates discharge or transfer should be credited to a holding account and paid to the agency or other entitled parties.

Our review of Huttonsville's Trustee Drawing Account reconciliation process revealed that inmate account balances, **including those negative inmate account balances**, and holding accounts (payments due to the Commissary, Post Office, Correctional Medical Services, etc.) are reconciled to the cash balance held in the Trustee Drawing local bank account and those monies held in the petty cash fund. Consequently, in the absence of a supervisory procedure ensuring write-offs are valid and properly authorized, the opportunity exists that fictitious negative inmate account balances could be created, subsequently written-off and cash could be removed from the petty cash fund keeping the account in balance.

Chapter 25, Article 1, Section 8 of the West Virginia Code authorizes the assessment and deduction of health care related charges and states in part,

“(a) The commissioner is authorized to assess inmates serving a sentence in any state penal or correctional facility reasonable charges for health care and treatment services provided to them by the state. The charges assessed against an inmate may be deducted directly from the inmate's trustee account without the inmate's consent. The inmate shall be notified of the amount deducted and the charges to which it has been applied.”

The Division of Corrections' Director of Administration stated the aforementioned Code section enabled the agency's institutions to assess inmate accounts with charges even if it creates deficit inmate account balances. However, although the aforementioned Code authorizes the institutions to deduct charges from the inmates' trustee accounts, it does not specifically authorize the institutions to create deficit inmate account balances or establish an accounts receivable.

Institutional Operational Procedure 1.11 "Fiscal Control" states in part,

“D. Huttonsville Correctional Center Fiscal Areas/Responsibility

1. The Huttonsville Correctional Center Associate Warden of Administration and Business Manager are hereby designated as the individuals responsible for ensuring that the correct and proper standards are in place and maintained for the control and/or utilization of the below-noted fiscal areas.

a. Internal Controls . . .

2. The Huttonsville Correctional Center Associate Warden of Administration shall work in conjunction with the Huttonsville Correctional Center Warden, Business Manager and Travel Clerk in fulfilling this responsibility.”

The write-off of a debt due the State is addressed in Chapter 14, Article 1, Section 18 of the West Virginia Code, which states:

“The commissioner of finance and administration, auditor or other officer or official body having authority to collect the same may, with the advice of attorney general, adjust and settle upon just and equitable principles without regard to strict legal rules any account or claim, in favor of the State, which may at the time have been standing upon the books of his or its office more than five years; and, with the like advice, may dismiss any proceedings instituted by him or it.”

Because inmate Trustee account negative balances are reconciled to the local bank account and petty cash fund, the opportunity exists for these written-off amounts to be subject to theft or misappropriation without management knowledge. We could not determine why the inmate account balances are written-off without proper management approval.

We recommend the agency comply with its own Institutional Operational Procedure 1.11 and Chapter 14, Article 1, Section 18 and Chapter 25, Article 1, Section 8 of the West Virginia Code and ensure that all write-offs are legitimate and properly authorized.

Agency's Response

The Division of Corrections cannot deny inmate medical care or postage for legal materials. We will initiate a Division policy, through the assistance of an Assistant Attorney

General and Legislative action, if necessary, for “write-offs” of uncollected debt for medical co-pay and legal postage to ensure a written procedure/standard is in place, is legitimate, is properly authorized, and is applied consistently throughout the agency for un-collectible inmate medical co-pay and/or legal postage.

Restitution is never “written-off.” If an inmate transfers to another facility, the restitution balance owed notification is sent to the facility. A file record is always maintained on restitution but it is never reflected in the trustee accounting system. It is collected as a percentage of any incoming funds and is shown as a charge to his account at that time. Restitution payments do not create deficit balances.

In reference to the West Virginia Code not specifically authorizing the institutions to create deficit inmate account balances or establish an account receivables, it states “... the charges assessed against an inmate may be deducted directly from the inmate’s trustee account without the inmate’s consent...” and we are following the law. We are deducting directly from the inmate’s account. We assisted in drafting this legislation and the intent was to assess the charge whether it resulted in a positive or negative balance.

Inmate Rent

Our post audit revealed agency personnel failed to collect rent from 39 inmates workers in the amount of \$5,174.18 in fiscal year 2003 and \$3,881.25 in fiscal year 2004 for a total of \$9,055.43. Inmates who work outside the institution for the Farm Commission, the Cass Scenic Railroad, the Division of Highways, etc., are required to pay 30% of their monthly earnings as rent if those earnings exceed \$100.00 per month.

Institutional Operational Procedure 1.17.01, states in part,

“I. POLICY: It is the Policy of Huttonsville Correctional Center to maintain a mechanism that ensures the collection of rent from inmates designated by the Commissioner.

V. PROCEDURE:

A. Any inmate who receives a salary or is otherwise monetarily compensated for work performed outside of the institution shall be assessed a rent charge, as established by the Division of Corrections. This is to include all inmates who are assigned to road crews, the Farm Commission, Cass Work Crew, or any other work place....

C. The rate will be thirty (30) percent of the total monthly income, not to exceed three (3) dollars per day. This percent will be deducted from the inmate’s account by the Trustee Clerk after the ten (10) percent mandatory retention amount has been posted. This process will be performed each month at the time that the inmate turn-in is posted.”

The Associate Warden of Administration stated the rate of pay for Farm Commission inmates as compared to the rate of pay for Cass Railroad Crew and Division of Highways workers was rather low. Farm Commission workers are paid a rate of \$.70 to \$1.00 per hour compared to \$1.25 per hour paid to Cass workers and \$1.50 paid to Highways workers. The Associate Warden added that deducting rent from the Farm Commission workers would significantly lower their spendable income (cash available for personal items, commissary purchases, and postage). The Associate Warden also stated rent was not charged to the farm workers because of the lower cost incurred to administer that portion of the program. Specifically, Huttonsville must provide inmate transportation and meals for Cass and Highways workers. These inmate workers are charged “rent” to help defray these costs. However, the Farm Commission uses their own vehicles to transport inmate workers and provides the workers with lunches.

Although rent waivers can be granted by the Commissioner of the Division of Corrections, Huttonsville did not apply for such exemption in the aforementioned instances. As a result of not collecting rent from Farm Commission inmate workers, Huttonsville lost revenues totaling \$9,055.43.

We recommend the agency comply with Institutional Operational Procedure 1.17.01 or request rent waivers from the Commissioner of the Division of Corrections for inmate farm workers.

Agency's Response

Huttonsville Correctional Center failed to request a waiver from the Commissioner. The Warden made a conscious decision based on factual issues that would have seriously impacted the ability to assist the Farm Commission with required inmate labor (at a savings to the State of West Virginia of low inmate wages vs. employee wages). It should be noted that we are currently discussing increasing the Farm Commission inmate pay rate with the Department of Agriculture. If the agreement is successful, inmates will be assessed rent.

Late Deposit of Inmate Trustee Account Receipts

The agency failed to deposit Inmate Trustee Drawing and Inmate Trustee Savings Account receipts in compliance with its own Institutional Operational Procedure. We found 54 out of 80 Drawing Account cash receipts totaling \$46,604.26 were deposited three to 13 days late and 34 out of 71 Savings Account cash receipts totaling \$83,815.39 were deposited three to 11 days late.

Huttonsville Correctional Center's Institutional Operational Procedure 1.17 "Cash Management - Deposit of Monies" sets forth the requirement for deposits to be made timely and states in part,

“Cash or checks received by various programs within the facility with their own checking accounts will be deposited to that particular account the received, if within regular banking hours. Monies that cannot be deposited the same day will be secured in the Trustee Clerk’s safe until a deposit can be made the next banking day. . . .”

Institutional Procedure 1.17 was amended effective October 1, 2003, and states in part,

“VI. PROCEDURE:

. . . B. Cash or checks received by programs that operate through the Trustee Account will be deposited on the first Tuesday or Friday after receipt.”

Cash receipts including monies from inmate visitation, proceeds of inmate arts and craft sales, cash tips given to inmates for auto mechanic work, as well as funds from other sources that are to be deposited into the Inmate Trustee Drawing Account are used to “replenish” the petty cash fund. The receipts are deposited into the local account as funds are available to keep the petty cash fund at the “needed” balance. We were unable to adequately determine why the other receipts would have been held. We believe the above instances of late deposits indicates the agency has not established an accounting procedure that will ensure deposits are made timely. Even though individual inmate accounts are credited the proper amount of interest, the amount of excess interest (although minimal) which is periodically deposited into the Inmate Benefit Fund is reduced as a result of the late deposits.

We recommend Huttonsville comply with Institutional Operational Procedure 1.17, as amended.

Agency’s Response

New procedures (Revised Institutional Procedures 1.17) have been implemented that bank deposits will occur three times per week (Monday-Wednesday-Friday). An individual has

been assigned this task as one of their regular duties. The Associate Warden of Administration and/or his designee will be responsible for oversight of this activity.

Unfortunately, due to previous staff shortage, deposits were not made in a timely manner. We do not understand how the State has not lost an undeterminable amount of interest, as the Inmate Trustee Drawing Account does not draw interest unless the State Treasurer's Office is drawing interest on this account.

Money is posted to the inmate's ledger in our accounting system and interest generates the day we post, although the money may not be deposited that same day into the bank account.

We always have excess interest upon bank reconciliation due to the fact that, when an inmate paroles/discharges, his interest stops in our accounting system the day the check is issued. The inmate may not cash the check or bank may not process the check for 7-14 days and interest has accrued during that time but not due the inmate. This interest has always offset any delay in bank depositing and no inmate has ever "lost" any interest. In fact, we have always had minimal "excess" interest – approximately \$20 per quarter after all accounts were posted, which we would transfer to the Inmate Benefit Fund.

We do agree that the above is not an excuse but felt it was necessary to reflect this statement as inmates will perceive this as if they are "owed" additional funds.

Again, we have implemented new procedures and revised Institutional Procedures 1.17 and deposits will occur three times weekly.

Unrecorded Transactions

Our examination of Trustee Drawing Account disbursements revealed four transactions totaling \$40.83 were not recorded on the Trustee Drawing Account "general ledger." The

expenditures related to bank charges for deposit tickets that were to be reimbursed by a State fund. However, we found the reimbursements were made from the Inmate Benefit Fund - Fund 6383 and these "bank charges" were not an authorized expenditure of that fund. The Trustee Account is required by statute and these expenses should have been paid through the Huttonsville Correctional Unit Fund - Fund 0450-514. Although a \$20.34 bank charge appeared on the September 30, 2002 Trustee Drawing Account bank statement and a \$20.49 bank charge appeared on the January 13, 2004 bank statement, neither the charges nor the subsequent reimbursements from the Inmate Benefit Fund - Fund 6383 were posted to the Trustee Drawing Account's books of record.

Division of Corrections Policy Directive 119.00 sets forth financial activity monitoring requirements and states in part,

"D. Record keeping for each program shall be maintained through a ledger/computer system which, at a minimum, will document:

1. Receipts - a record of all cash, checks, voucher transfers, and accounts receivable.
2. Disbursements - a record of all funds paid out. A written documentation (invoice, etc.) will be kept on file for each disbursement....
4. Balance - the ledger/computer information will be maintained in a current, balanced, and up-to-date condition with all entries posted in a timely manner."

In addition, Chapter 25, Article 1, Section 3b of the West Virginia Code defines permissible uses of inmate benefit funds and states in part,

"(c) The inmate benefit fund may only be used for the following purposes at correctional facilities: . . . (12) Any expense associated with the operation of the fund; . . ."

Business Office staff stated that recording the disbursements on the agency's books would have caused its accounting records to be out of balance due to the transaction being a reimbursement and not a bona fide Trustee Drawing Account transaction. In reality the opposite is true. Not recording the disbursements on agency's books caused its accounting records to be out of balance with the amount of cash reported on the bank statement. Nevertheless, failing to post any disbursement or receipt to the general ledger may lead to inaccurate financial reporting. Furthermore, Trustee Drawing Account office supplies are not expenses associated with the operation of the Inmate Benefit Fund - Fund 6383.

We recommend Huttonsville comply with Policy Directive 119.00 and Chapter 25, Article 1, Section 3b of the West Virginia Code, as amended, by posting all transactions to the appropriate general ledgers and charging those expenses to the proper fund. The trustee account is required by the West Virginia Code and expenses for maintaining the fund should be paid from State funds.

Agency's Response

"Bank charges" for the Trustee Drawing Account are not to be paid from the Inmate Benefit Fund. We erred in these disbursements which totaled \$40.83. The Huttonsville Correctional Center understands that bank charges are to be paid from the General Revenue Fund Account.

COMMISSARY OPERATIONS:

Perpetual Inventory

The Commissary purchased merchandise for resale totaling \$825,280.88 during the 2003 fiscal year and \$840,062.49 during the 2004 fiscal year; however, the Commissary's perpetual

inventory system cannot be relied upon to provide accurate inventory information. During a review of the Commissary's monthly inventory valuations reports, we noted negative inventory balances listed on the report for several items purchased for resale. Information obtained from the reports is used to track inventory and calculate the Commissary's monthly cost of goods sold. When negative balances are found on the report, the actual number of items on hand is determined and the report is adjusted accordingly. However, the agency does not have a mechanism in place to be certain of the quantity of any item that should be on hand on any given day. Consequently, when inmates burglarized the Commissary stockroom during the 2003 fiscal year, the inventory on hand at the time could not be determined; however, Huttonsville investigators estimated that at least \$1,043.95 worth of merchandise was stolen.

Commissary staff stated quarterly physical counts should have been taken during our two year audit period, but staffing issues and other considerations interfered with the quarterly schedule. The Associate Warden for Administrative Services stated he requested that quarterly physical counts be completed. According to his records, five physical inventories were taken during our audit period, but only two (February 28, 2003 and May 30, 2003) physical count worksheets could be located. We found that when physical counts were taken, the perpetual records were simply adjusted to reflect quantities on hand.

Division of Corrections Policy Directive 119.00 sets forth the record keeping requirements for the Commissary and it states in part,

“Record keeping for each program shall be maintained through a ledger/computer system which at a minimum, will document:...

3. Inventory - a perpetual inventory of all goods and materials purchased or acquired, for resale or for use in the program will be maintained. This inventory will include:

- a. Date of Purchase or Date Acquired
- b. Quantity
- c. Description (Color, Size, Model, etc.)
- d. Cost
- e. Selling Price, if applicable”

According to the Associate Warden of Administrative Services, an accurate inventory cannot be maintained because of problems with the Commissary inventory program. In addition, the Associate Warden stated the software provider has been contacted on numerous occasions and has not been able to determine the cause nor correct the problem.

Making monthly inventory adjustments would allow shortages and abnormal shrinkage to be reflected as part of the Commissary’s operating cost and go undetected. Without an accurate inventory system, cost of goods sold can not be determined and accurate profit and loss statements can not be prepared. We noted the institution transferred commissary profits totaling \$40,000.00 to the Inmate Benefit Fund during our two year audit period. However, due to the agency’s ineffective inventory system we were unable to determine what the true profit of the Commissary’s operation should have been.

We recommend the agency comply with Division of Corrections Policy Directive 119.00 and repair the current program or obtain a system that will keep an accurate perpetual inventory. We also recommend some inventory procedure be established to allow for the preparation of accurate financial statements for this account monthly.

Agency’s Response

A decision was made months ago after careful review, research and discussion with other states Division of Corrections and our own management staff that the Division of Corrections does not have the expertise and staff resources to appropriately manage and maintain

million dollar “grocery stores” in our correctional institutions. Therefore, we have bid a Request for Proposal to “outsource” this total service. Proposals have been received and are currently being evaluated. We anticipate an award by January 15, 2005.

Until such time as an independent contractor provides the Commissary services, we will perform monthly inventories. This will enable us to provide a more accurate profit and loss statement.

Records do exist for all Commissary sales with the only exception being some staff sales due to a system failure. We can provide records for the past year of all inmate sales and their relation to the monthly check issued from the Trustee Account to the Commissary Account.

Commissary Receipts

According to agency records, Commissary receipts totaled \$895,519.92 during the 2003 fiscal year and \$965,079.17 during the 2004 fiscal year; however, we were unable to substantiate Commissary sales receipts based on the supporting documentation provided to us by the agency. Individual checks written to the Commissary during our audit period could not be tied directly to sales for any specific time period, nor does the total of all checks written to the Commissary for our entire audit period reflect the total sales reported. Funds from inmate Commissary sales are transferred, by computer, from the individual inmate accounts to the Exchange “holding account” in the Trustee Computer System. These funds accumulate through the month and, following the end of the month, a check is written to the Exchange Clerk and is deposited in the Exchange (Commissary) account. The monthly sales check cannot be reconciled back to sales for various reasons. We found that no report is generated to support the amount of the check when it is written and the date the check is written may not be the exact end of the month and might vary by a few days past the actual end of the

month. Cash sales made to agency staff were recorded using various methods during our audit period. Staff sales are currently balanced and deposited weekly and do not necessarily coincide with either the end of the month nor the date the sales check is written. According to Commissary staff, sales records were lost and some sales could not be reconciled because of computer errors and “crashes.” Any unaccounted for cash was stored in the Commissary and turned in periodically to be deposited in the Exchange account as excess cash.

Division of Corrections Policy Directive 119.00 sets forth the record keeping requirements for the Commissary and it states in part,

“Programs and accounts that shall undergo ongoing monitoring shall include...Exchange/Commissary/Canteen. . . .

Record keeping for each program shall be maintained through a ledger/computer system which at a minimum, will document: . . .

a. Receipts - a record of all cash, checks, voucher transfers, and accounts receivable.”

The Associate Warden of Administrative Services, recognized that the monthly Commissary sales check written from the Inmate Trustee Drawing Account could not be reconciled back to sales. As a result, we were unable to determine if Commissary sales figures were accurate.

We recommend the agency comply with Division of Corrections Policy Directive 119.00 and maintain supporting documentation that will substantiate Commissary sales receipts.

Agency's Response

A decision was made months ago after careful review, research and discussion with other states Division of Corrections and our own management staff that the Division of Corrections does not have the expertise and staff resources to appropriately manage and maintain million dollar “grocery stores” in our correctional institutions. Therefore, we have bid a Request

for Proposal to “outsource” this total service. Proposals have been received and are currently being evaluated. We anticipate an award by January 15, 2005.

Until such time as an independent contractor provides the Commissary services, we will perform monthly inventories. This will enable us to provide a more accurate profit and loss statement.

Records do exist for all Commissary sales with the only exception being some staff sales due to a system failure. We can provide records for the past year of all inmate sales and their relation to the monthly check issued from the Trustee Account to the Commissary Account.

Commissary Purchasing Procedures

Our post audit of Commissary disbursements revealed that neither requisitions nor purchase orders, essential to sound business practices, were prepared for any of the 29 purchases tested. We tested \$650,255.43 of the total \$1,665,343.37 merchandise purchased for resale and found the Commissary staff did not process requisitions or purchase orders by standard purchasing procedures.

Division of Corrections Policy Directive 126.00 establishes the requirement for the Commissary to follow sound business practices and states in part,

“I. POLICY: . . . The Commissary/Canteen/Exchange’s operations shall be strictly controlled using standard accounting procedures . . .”

Since institutional requisitions and purchase orders were not required, unauthorized Commissary purchases may have been made.

We recommend Huttonsville comply with Division of Corrections Policy Directive 126.00 and establish and follow standard purchasing procedures.

Agency's Response

A decision was made months ago after careful review, research and discussion with other states Division of Corrections and our own management staff that the Division of Corrections does not have the expertise and staff resources to appropriately manage and maintain million dollar "grocery stores" in our correctional institutions. Therefore, we have bid a Request for Proposal to "outsource" this total service. Proposals have been received and are currently being evaluated. We anticipate an award by January 15, 2005.

Until such time as an independent contractor provides the Commissary services, we will perform monthly inventories. This will enable us to provide a more accurate profit and loss statement.

Records do exist for all Commissary sales with the only exception being some staff sales due to a system failure. We can provide records for the past year of all inmate sales and their relation to the monthly check issued from the Trustee Account to the Commissary Account.

ARTS AND CRAFTS PROGRAM:

Program Purchases and Materials Inventor

As part of Arts and Crafts Program test of disbursements, we attempted to trace inmate arts and crafts materials purchases to a vendor invoice or program inventory records. Program material and supply purchases totaling \$18,392.07 were made during our audit period; however, we were unable to determine if these materials and supplies were actually used for the Arts and Crafts Program.

Wood	\$ 7,149.38
Glass	1,715.47
Miscellaneous Materials	3,830.93
Miscellaneous Supplies	<u>5,696.29</u>
Total Materials and Supplies	<u>\$18,392.07</u>

Based on conversations with agency personnel, we found program material purchases were not inventoried and individual inmate purchases could not be traced to specific vendor invoices showing that the correct unit cost was charged to the inmates making material purchases.

Huttonsville Institutional Operational Procedure 1.19. states in part:

“VI. PROCEDURE:

A. There are maintained within the structure of the Huttonsville Correctional Center various programs which are, for the most part, self-supporting. They have income from donations and/or the sale of goods, or services; and they have expenditures for materials, goods, and services. Most, if not all of these programs will involve the financial participation of the inmate population; therefore, the procedures set forth in this operational procedure will establish minimum sound business practices for their successful operation. Programs and accounts falling into this category include, but are not limited to the following: State Tax, Arts & Crafts,

B. Record Keeping-Each program shall maintain a ledger which, at the least, will document. . . .

3. Inventory-a perpetual inventory of all goods and materials purchased or acquired for resale or use in the program will be kept. This inventory will include:

- a. Date of purchase or date acquired
- b. Quantity
- c. Description (color, size, model, etc.)
- d. Cost
- e. Selling price, if applicable. . . .”

According to the Associate Warden of Administrative Services, the previous Arts and Crafts Program Director did not maintain a record that tied inmate program material purchases directly to the invoice where the materials were purchased. Consequently, we could not determine how much material, or if all of the material purchased, was used for the program. In addition, if the materials were used for the program, we were unable to determine if the inmates were charged the correct amount for their art or craft projects.

We recommend the agency comply with its own Institutional Operational Procedure number 1.19 and keep a perpetual inventory of arts and crafts material purchases and maintain records that can be used to trace individual inmate purchases to specific vendor invoices.

Agency's Response

The findings are correct on the Arts and Crafts Program due to our inability to find supporting records.

The Program presently operates under the Associate Warden of Programs.

Procedures are currently in place to maintain inventory, all material purchases by inmates, and to trace individual inmate purchases to specific Vendor invoices, as well as all documented inmate sales records and proceeds to appropriate inmates.

Program Receipts

The agency was unable to provide us with Arts & Crafts Program sales records supporting \$831.50 in artwork sales proceeds credited to eight inmates. Until May 2003, inmates participating in the Arts and Crafts Program could sell their artwork to the public through a store located on correctional center property near the highway. During our examination of Inmate Trustee Drawing Account receipts, we found five December 2002 Arts and Crafts Program sales totaling \$472.50 and three March 2003 Arts and Crafts Program sales totaling \$359.00 credited to individual inmate Trustee Drawing accounts. The program sales receipts listed "tag numbers" as references for the artwork sold. Even so, we could not reference the following receipts back to individual sales or determine what the inmates provided for sale.

<u>Inmate Number</u>	<u>Month/Year</u>	<u>Arts/Crafts Receipt</u>	<u>Amount</u>
1	December 2002	7483	\$393.00
2	December 2002	7484	18.50
3	December 2002	7485	20.00

<u>Inmate Number</u>	<u>Month/Year</u>	<u>Arts/Crafts Receipt</u>	<u>Amount</u>
4	December 2002	7486	16.00
5	December 2002	7487	25.00
6	March 2003	7515	269.00
7	March 2003	7516	70.00
8	March 2003	7518	<u>20.00</u>
TOTAL			<u>\$831.50</u>

After the inmate completes his project, he sets a sale price, and if the item is sold, the proceeds are forwarded to the respective inmate for deposit in his Trustee Drawing Account. We attempted to trace the tag numbers and sales amounts listed on the receipts to Arts and Crafts Program sales records; however, according to agency personnel the sales records could not be located. When the artwork or craft was sold, the inmate received the proceeds from the sale as indicated on the program receipt that was completed and signed by the inmate store clerk. Although program collections were recorded on a cash receipt book, we were unable to determine if the inmate received the actual sales price.

Huttonsville Institutional Operational Procedure number 1.19. states in part:

“VI. PROCEDURE:

A. There are maintained within the structure of the Huttonsville Correctional Center various programs which are, for the most part, self-supporting. They have income from donations and/or the sale of goods, or services; and they have expenditures for materials, goods, and services. Most, if not all of these programs will involve the financial participation of the inmate population; therefore, the procedures set forth in this operational procedure will establish minimum sound business practices for their successful operation. Programs and accounts falling into this category include, but are not limited to the following: State Tax, Arts & Crafts, ...

B. Record Keeping-Each program shall maintain a ledger which, at the least, will document. . . .

1. Receipts-a record of all cash, checks, voucher transfers, and accounts receivable. . . .”

The Associate Warden of Administration said there were sales records kept for the Arts & Crafts Program; however, the records could not be located by the agency. In addition, we asked agency staff if they knew of any instances in which inmates complained about not receiving the proper amount for an artwork sale. An Accounting Tech II stated that at least one inmate had complained to the agency's business office staff that he had received sales proceeds that were less than the sales price set.

We recommend Huttonsville comply with Institutional Operational Procedure 1.19 and maintain documentation showing the sales prices set by the inmates and a description of what the inmates provided for sale.

Agency's Response

The findings are correct on the Arts and Crafts Program due to our inability to find supporting records.

The Program presently operates under the Associate Warden of Programs.

Procedures are currently in place to maintain inventory, all material purchases by inmates, and to trace individual inmate purchases to specific Vendor invoices, as well as all documented inmate sales records and proceeds to appropriate inmates.

EMPLOYEE BOOSTER ACCOUNT:

Employee Booster Fund Receipts

Huttonsville received commissions from vending machine vendors that were not deposited into the State's general revenue account. During our audit period we noted 23 instances totaling \$2,690.35 of vending machine commissions from Coca Cola, Pepsi, and Tom's Foods being remitted to the Employee Booster Fund. However, we could not find any authority for the employees

to receive profits from vending machine operations. The agency maintains a local bank account funded primarily by vending commissions, fund raisers, and donations. The collections were generally used by the agency to fund employee picnics and parties, scholarships, and donations to employees who have exhausted their sick leave. The balance of the checking account was transferred to the Huttonsville Employee Association on July 1, 2004.

Chapter 6B, Article 2, Section 5 of the West Virginia Code outlines ethical standards for public employees and states in part,

“(b) Use of public office for private gain. - (1) A public official or public employee may not knowingly and intentionally use his or her office or the prestige of his or her office for his or her own private gain or that of another person. . . .”

Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended, states in part:

“(b) . . . All moneys, other than federal funds, defined in section two, article eleven, chapter four of this code, shall be credited to the state fund and treated by the auditor and treasurer as part of the general revenue of the state . . .”

More importantly, we found Huttonsville did not obtain bids for the vending services or have agreements with Coca Cola, Pepsi or Tom’s Foods. The agreements, at a minimum, should specify the responsibilities of each party and the methodology for calculating profits and/or vending commissions.

Section 2.0 of the Department of Administration’s State Purchasing Regulations which defines various terms that are used in the State procurement process, specifies an agreement to be:

“**Agreement** - A document used to acquire services from a vendor for a preset fee covering a specific period of time. Terms and conditions are outlined in this form. . . .”

Section 6.1.3 of the same Regulations state in part,

“Purchases \$5,000.01 to \$10,000: A minimum of three (3) written bids are required *when possible*.

A **Request for Quotations form, WV-43, or TEAM-Generated RFP/RFQ** (See Appendix A) should be used for documenting and making these requests. In all cases, state agencies must attempt to obtain at least three (3) written bids for a product or service. A “no bid” is not considered a bid. An **Agency Purchase Order or TEAM generated Purchase Order** is required. Fax bids are acceptable.

Agencies must first review availability of mandatory contracts or internal sources, such as statewide contract or agency open-end contract exists for the commodity or service, or if Surplus Property, Correctional Industries or the West Virginia Association of Rehabilitation Facilities is able to supply the need.”

The Associate Warden of Administration, and the Associate Warden of Operations, said to the best of their knowledge the commissions were not State monies, but instead were private funds belonging to the Employee Booster Fund. They also stated these commissions were generated by staff purchases and not by the families of inmates. Nevertheless, funds that should have been deposited in the Institution’s State General Revenue Fund were instead placed into a private account. We were unable to determine why the agency failed to obtain bids or agreements for the services provided.

We recommend the agency comply with Chapter 6B, Article 2, Section 5 of the West Virginia Code, and Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended, and Sections 2.0 and 6.1.3 of the Department of Administration’s Purchasing Regulations.

Agency’s Response

We have requested the assistance of the Assistant Attorney General on this issue.

He will initiate a request to the Ethics Commission regarding profit from vending machines used

only by State employees, although on State property, being deposited into the employee association fund versus the State's General Revenue Fund.

It was never our intent, nor even a thought, that this may be an ethical violation or we were "diverting" money due the State of West Virginia.

We did not bid for the services, as we are not paying for any services with State/Federal generated funds. Employees use personal funds to buy their cokes, pepsi, etc.

INMATE BENEFIT FUND:

Authorization of Inmate Benefit Fund Disbursements

Expenditures totaling \$301,055.68 charged to the Inmate Benefit Fund - Fund 6383 did not have appropriate authorization. Specifically, we found 23 out of 25 purchases or disbursements tested were not supported by the required voucher (letter) of authorization.

Division of Corrections Policy Directive 127.00 states in part,

"...H. The Warden/Administrator is the only individual who may authorize a purchase or use of funds from the Inmate Benefit Fund.

1. For each of the expenditures, the voucher that authorized payment of purchase and a letter of explanation from the Warden/Administrator will be maintained as a permanent record.
2. The voucher of authorization for payment and the letter of explanation shall be available for inspection at any time."

We were unable to ascertain why the voucher (letters) of authorization were not prepared. Nevertheless, the disbursements were not properly authorized in accordance with agency policy.

We recommend the agency comply with Division of Correction Policy Directive 127.00.

Agency's Response

Policy Directive 127.00 will be rescinded by Commissioner Rubenstein as it was issued with contradictory language regarding State held accounts.

Since the Inmate Benefit Fund is in Code with specific language as to appropriate expenditures, it is not necessary that a voucher be authorized by the Warden...the policy also states:

“J. Signature authorization for withdrawal of funds from this account will be established for the following:

- 1. Warden/Administrator/Deputy Warden (if applicable), Business Manager and other designee(s), as approved by the Commissioner.*
- 2. Withdrawal procedures will require the signature of at least two (2) of the above-noted individuals.”*

This language was carried forward into this policy from the old policy when the Inmate Benefit Fund was a local bank account directly under the Warden's authority. This account is now managed, as all other accounts, in the FIMS system. The Warden, Deputy Warden, Business Manager and/or designee(s) have the authority to authorize purchases depending on institutional operational procedures.

This was an oversight on our part and the revised policy directive will be issued with the appropriate language.

Purchasing Card Log Sheets

Purchasing card purchases totaling \$91,722.33 were charged to the fund during the 2003 fiscal year and \$78,068.73 were charged to the fund during the 2004 fiscal year. However, Huttonsville did not have internal controls in place during our audit period to ensure cardholders completed, reconciled, and signed purchasing card log sheets as required, nor to ensure purchasing card coordinators signed log sheets as required. We noted the agency did not prepare a purchasing

card log sheet for an Inmate Benefit Fund - Fund 6383 purchasing card disbursement transactions selected for testing.

Section 7.2 of the State Auditor's "State Purchasing Card Program Policies and Procedures" state in part,

"Log Sheets: Each cardholder is required to maintain a log sheet (See Appendix 9) containing the date, vendor name, and an item description, as well as the appropriate object code for each expenditure.
Log sheets can be computerized or manual and must be signed by both the cardholder and the agency coordinator to indicate that all entities have been reconciled and are legitimate. . . ." (Emphasis added)

Section 2.2 states in part,

"Coordinator Responsibilities: The agency purchasing card coordinator will administer the Purchasing Card Program within his or her agency. Coordinator responsibilities include, but are not limited to, the following: . . .

1. Reconciling master statements.
2. Ensuring agency cardholder follow all Purchasing Card Policies and Procedures."

Section 8.1 states in part,

"Purchasing Card Reconciliation: Each cardholder is responsible for reconciling his or her statement every month. The agency card coordinator is responsible for reconciling the master statement.

. . . This includes reviewing all transactions to ensure that they are legitimate and for official state business, and that all required documentation is present."

Huttonsville staff stated they did not know purchasing card log sheets were required until they attended a recent purchasing card seminar. As a result of the log sheets not being prepared, we were unable to determine if reconciliations were completed by the cardholder and if the master statement was reconciled by the purchasing card coordinator. We were also unable to determine if

transactions were reviewed for accuracy and whether items purchased were for official State business. Also not indicating the object code on the log sheet, increases the possibility of unauthorized purchases (such as restricted items) being charged to the purchasing card.

We recommend Huttonsville establish internal controls to ensure compliance with Sections 7.2, 2.2 and 8.1 of the State Auditor's "State Purchasing Card Program Policies and Procedures."

Agency's Response

The Division's P-card Coordinator performed an audit inspection on October 23, 2003. The Auditor's Office P-card representative had been to the Huttonsville Correctional Center prior to this date for review of P-card activity. Upon our P-card Coordinator's discussion with members of the Huttonsville Correctional Center business staff, he did find that log sheets had not been done regularly before a review of P-card transactions. Many of our institutions were under the impression that reconciliation of the online STARS system would suffice in lieu of a paper log sheet. Our own agency coordinator also was under this impression based upon training prior to additional training in July 2003 for P-card Coordinators. As our P-card Coordinator began on-site inspections after July 2003, he informed those not maintaining the P-card log that the STARS system reconciliation would not meet the mandate of the West Virginia Code in reference to log sheets.

P-card log sheets have been kept since that time. Signatures were lacking on some and this issue is being addressed. Proper signatures will be obtained.

The Division's P-card Coordinator will continue to perform periodic inspections to ensure compliance with P-card regulations.

Late Deposit of Inmate Benefit Fund Receipts

We also noted the agency failed to deposit Inmate Benefit Fund - Fund 6383 receipts within 24 hours of receipt. We found 12 out of 44 Inmate Benefit Fund - Fund 6383 cash receipts totaling \$90,370.97 were deposited three to 11 days late.

Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended, states in part,

“(a) All officials and employees of the state authorized by statute to accept moneys due the state of West Virginia shall keep a daily itemized record of such moneys so received for deposit in the state treasury and shall deposit within twenty-four hours with the state treasurer all moneys received or collected by them for or on behalf of the state for any purpose whatsoever. . . .”

Agency deposits are generally taken to the bank twice a week. However, Inmate Benefit Fund deposits are required to be deposited within 24 hours of receipt. By not making timely deposits, the State has lost an undetermined amount of interest.

We recommend the institution comply with Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended.

Agency's Response

Due to staff shortage, we were late in depositing funds. We have changed our deposit schedule to three times per week (Monday-Wednesday-Friday). This will allow us to comply with the West Virginia Code. In addition, a staff member has been assigned this task as a component of her job duties. Associate Warden of Administration will perform periodic random samplings to ensure compliance.

INDEPENDENT AUDITORS' OPINION

The Joint Committee on Government and Finance:

We have audited the statement of cash receipts, disbursements and changes in cash balances of the Huttonsville Correctional Center for the years ended June 30, 2004 and June 30, 2003. The financial statement is the responsibility of the management of the Huttonsville Correctional Center. Our responsibility is to express an opinion on the financial statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

Our audit revealed several areas of material weakness in the system of internal controls over the financial operations of the Huttonsville Correctional Center as follows: **1.** Our inability to determine whether all moneys due the Commissary during the period July 1, 2002 through June 30, 2004 were actually received and recorded; **2.** Our inability to determine whether all moneys due inmates for arts and craft sales during the period July 1, 2002 through June 30, 2004 were actually received and recorded; **3.** Huttonsville did not maintain inventories for merchandise purchased for resale in the Commissary, nor for materials for use and resale in the Arts and Crafts Program; and, **4.** Our inability to determine whether materials purchased using Arts and Crafts Program moneys were actually used in the program.

As described in Note A, the financial statement was prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, except for effects, if any, of our inability to rely on the system of internal controls of the Huttonsville Correctional Center and our corresponding inability to determine that all financial activities of the Huttonsville Correctional Center were properly and fully accounted for in the financial records of the Huttonsville Correctional Center, the financial statement referred to above presents fairly, in all material respects, the revenues collected and expenses paid by the Huttonsville Correctional Center for the years ended June 30, 2004 and June 30, 2003 on the basis of accounting described in Note A.

Our audit was conducted for the purpose of forming an opinion on the basic financial statement taken as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statement. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated

procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

Respectfully submitted,


Theodor L. Shanklin, CPA, Director
Legislative Post Audit Division

October 15, 2004

Auditors: Michael A. House, CPA, Assistant Director
Timothy C. Butler, CPA, Auditor-in-Charge
Thomas F. Ward, CPA
Eric B. Ammons

**HUTTONSVILLE CORRECTIONAL CENTER
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES**

INMATE BENEFIT FUND - FUND 6383, INMATE TRUSTEE DRAWING ACCOUNT,
INMATE TRUSTEE SAVING ACCOUNT, COMMISSARY/EXCHANGE ACCOUNT,
TRAVEL AND DISCHARGE ACCOUNT, ARTS AND CRAFTS PROGRAM ACCOUNT,
EMPLOYEE BOOSTER ACCOUNT, BURIAL/FLOWER FUND ACCOUNT

	<u>Year Ended June 30, 2004</u>		
	<u>Special Revenue</u>	<u>Trust Funds</u>	<u>Combined Totals</u>
Cash Receipts	\$1,209,897.06	\$1,264,110.21	\$2,474,007.27
Disbursements:			
Personal Services	118,276.49	0.00	118,276.49
Employee Benefits	0.00	0.00	0.00
Current Expenses	996,808.79	0.00	996,808.79
Repairs and Alterations	31,958.70	0.00	31,958.70
Assets	8,241.91	0.00	8,241.91
Payment of Taxes	0.00	0.00	0.00
Grants, Awards, Scholarships, and Loans	0.00	0.00	0.00
Inmate Funds and Benefits	0.00	1,265,774.69	1,265,774.69
Miscellaneous	<u>11,892.11</u>	<u>0.00</u>	<u>11,892.11</u>
	<u>1,167,178.00</u>	<u>1,265,774.69</u>	<u>2,432,952.69</u>
Cash Receipts Over/(Under) Disbursements	42,719.06	(1,664.48)	41,054.58
Beginning Balance	<u>136,647.06</u>	<u>310,009.67</u>	<u>446,656.73</u>
Ending Balance	<u>\$ 179,366.12</u>	<u>\$ 308,345.19</u>	<u>\$ 487,711.31</u>

See Notes To Financial Statement

Year Ended June 30, 2003

<u>Special Revenue</u>	<u>Trust Funds</u>	<u>Combined Totals</u>
\$1,204,713.29	\$1,307,087.09	\$2,511,800.38
221,489.33	0.00	221,489.33
0.00	0.00	0.00
1,105,044.24	0.00	1,105,044.24
14,677.34	0.00	14,677.34
49,969.85	0.00	49,969.85
1,235.68	0.00	1,235.68
0.00	0.00	0.00
0.00	1,309,511.67	1,309,511.67
<u>19,546.15</u>	<u>0.00</u>	<u>19,546.15</u>
<u>1,411,962.59</u>	<u>1,309,511.67</u>	<u>2,721,474.26</u>
(207,249.30)	(2,424.58)	(209,673.88)
<u>343,896.36</u>	<u>312,434.25</u>	<u>656,330.61</u>
<u>\$ 136,647.06</u>	<u>\$ 310,009.67</u>	<u>\$ 446,656.73</u>

HUTTONSVILLE CORRECTIONAL CENTER

**INMATE TRUSTEE DRAWING ACCOUNT
INMATE TRUSTEE SAVINGS ACCOUNT
COMMISSARY / EXCHANGE ACCOUNT
TRAVEL AND DISCHARGE ACCOUNT
ARTS AND CRAFTS PROGRAM ACCOUNT
EMPLOYEE BOOSTERS ACCOUNT
BURIAL/FLOWER FUND ACCOUNT
INMATE BENEFIT FUND - FUND 6383**

NOTES TO FINANCIAL STATEMENT

Note A - Accounting Policy

Accounting Method: The cash basis of accounting is followed by the reported funds. Therefore, certain revenues and the related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. Accordingly, the financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

Combined Totals: The combined totals contain the totals of similar accounts of the various funds. Since the cash receipts of certain funds are restricted by various laws, rules, and regulations, the totaling of the accounts is for memorandum purposes only and does not indicate that the combined totals are available in any manner other than that provided by such laws, rules and regulations.

Note B - Employee Funds: We located two local bank accounts which were used by the Huttonsville Correctional Center to account for funds which were raised and expended for the benefit of employees. These accounts whose cash receipts, disbursements and balances were excluded from the basic financial statements are detailed below, along with a summary of their activities.

Employee Booster Account: An account established to provide for employee parties and functions and to donate money to sick employees who have exhausted their sick leave balance. Booster Fund receipts included commissions on vending machine sales, as well as, fund raisers.

	<u>Year Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Receipts:	\$ 2,260.46	\$ 2,043.35
Disbursements:	\$ 4,422.55	\$ 1,703.03
Cash Balance:	\$ 0.53	\$ 2,162.62

Flower/Burial Fund Account: An account funded by employee donations used to purchase flower arrangements for the funerals of Huttonsville staff and their families. On occasion, the family of the deceased would ask that the money be given to a charity in lieu of flowers.

	<u>Year Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Receipts:	\$ 1,621.50	\$ 576.27
Disbursements:	\$ 1,568.80	\$ 514.95
Cash Balance:	\$ 168.21	\$ 115.51

Note C - Intra-Account Transfers

The following intra-account transactions have been eliminated:

	<u>Year Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Special Revenue	\$ 40,000.00	\$.00
Trust Funds	<u>104,216.76</u>	<u>121,565.78</u>
	<u>\$ 144,216.76</u>	<u>\$ 121,565.78</u>

SUPPLEMENTAL INFORMATION

HUTTONSVILLE CORRECTIONAL CENTER
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCE
SPECIAL REVENUE

	<u>Year Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
<u>Huttonsville Inmate Benefit Fund</u>		
<u>Fund 6383-640</u>		
Cash Receipts:		
Other Collections, Fees, Licenses and Income	<u>\$233,817.89</u>	<u>\$210,180.93</u>
	233,817.89	210,180.93
Disbursements:		
Personal Services	46,883.57	170,802.55
Employee Benefits	0.00	0.00
Current Expenses	115,878.47	183,751.20
Repairs and Alterations	31,958.70	14,677.34
Assets	7,519.21	48,221.10
Bank Costs	<u>0.00</u>	<u>20.15</u>
	<u>202,239.95</u>	<u>417,472.34</u>
Cash Receipts Over/(Under) Disbursements	31,577.94	(207,291.41)
Beginning Balance	<u>37,583.92</u>	<u>244,875.33</u>
Ending Balance	<u>\$ 69,161.86</u>	<u>\$ 37,583.92</u>

HUTTONSVILLE CORRECTIONAL CENTER
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCE
SPECIAL REVENUE - LOCAL BANK ACCOUNTS

	<u>Year Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
<u>Commissary / Exchange Account</u>		
Cash Receipts:		
Inmate Sales	\$949,955.26	\$895,252.58
Staff Sales	<u>15,123.91</u>	<u>267.34</u>
	965,079.17	895,519.92
Disbursements:		
Purchases for Resale	840,062.49	825,280.88
Staff Wages	66,793.04	45,824.43
Inmate Wages	4,599.88	4,862.35
Transfer to Inmate Benefit Fund	40,000.00	0.00
Other	<u>11,892.11</u>	<u>19,273.95</u>
	<u>963,347.52</u>	<u>895,241.61</u>
Cash Receipts Over Disbursements	1,731.65	278.31
Beginning Balance	<u>93,650.72</u>	<u>93,372.41</u>
Ending Balance	<u>\$ 95,382.37</u>	<u>\$ 93,650.72</u>

HUTTONSVILLE CORRECTIONAL CENTER
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCE
SPECIAL REVENUE - LOCAL BANK ACCOUNTS

	<u>Year Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
<u>Travel and Discharge Account</u>		
Cash Receipts:		
Advances from Division of Corrections	<u>\$51,000.00</u>	<u>\$77,137.22</u>
	51,000.00	77,137.22
Disbursements:		
Transportation Unit - Employee Travel	1,869.04	23,736.93
Discharged Inmate Travel	2,181.10	6,717.57
Travel Settlements with Division of Corrections	<u>36,327.50</u>	<u>47,635.63</u>
	<u>40,377.64</u>	<u>78,090.13</u>
Cash Receipts Over/(Under) Disbursements	10,622.36	(952.91)
Beginning Balance	<u>1,850.35</u>	<u>2,803.26</u>
Ending Balance	<u>\$12,472.71</u>	<u>\$ 1,850.35</u>

HUTTONSVILLE CORRECTIONAL CENTER
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCE
SPECIAL REVENUE - LOCAL BANK ACCOUNTS

	<u>Year Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
<u>Arts and Crafts Fund Account</u>		
Cash Receipts:		
Inmate Purchases	\$ 0.00	\$20,639.54
Sales Tax	<u>0.00</u>	<u>1,235.68</u>
	0.00	21,875.22
Disbursements:		
Materials	490.19	12,205.59
Supplies	0.00	5,696.29
Equipment	722.70	1,748.75
Sales Tax Remitted	0.00	1,235.68
Other	<u>0.00</u>	<u>272.20</u>
	<u>1,212.89</u>	<u>21,158.51</u>
Cash Receipts (Under)/Over Disbursements	(1,212.89)	716.71
Beginning Balance	<u>3,562.07</u>	<u>2,845.36</u>
Ending Balance	<u>\$2,349.18</u>	<u>\$ 3,562.07</u>

HUTTONSVILLE CORRECTIONAL CENTER
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCE
TRUST FUND - LOCAL BANK ACCOUNTS

	<u>Year Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
<u>Inmate Trustee Drawing Account</u>		
Cash Receipts:		
Contributions and Transfers from Savings	\$ 859,012.20	\$ 878,037.59
Inmate Payroll	<u>339,821.87</u>	<u>393,299.59</u>
	1,198,834.07	1,271,337.18
Disbursements:		
Commissary Purchases	892,823.42	901,766.66
Vendor Purchases	87,226.83	133,413.29
Voluntary Savings	25,716.33	43,362.55
Mandatory Savings	33,900.52	39,332.10
Discharge and Transfers	67,076.33	66,381.61
Restitution	4,823.59	2,935.49
Other	<u>75,345.79</u>	<u>77,257.02</u>
	<u>1,186,912.81</u>	<u>1,264,448.72</u>
Cash Receipts Over Disbursements	11,921.26	6,888.46
Beginning Balance	<u>134,551.96</u>	<u>127,663.50</u>
Ending Balance	<u>\$ 146,473.22</u>	<u>\$ 134,551.96</u>

HUTTONSVILLE CORRECTIONAL CENTER
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCE
TRUST FUND - LOCAL BANK ACCOUNTS

	<u>Year Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
<u>Inmate Trustee Savings Account</u>		
Cash Receipts:		
Voluntary Contributions	\$135,145.80	\$116,604.51
Mandatory Contributions	33,900.52	39,332.10
Interest	<u>446.58</u>	<u>1,379.08</u>
	169,492.90	157,315.69
Disbursements:		
Transfers to Trustee Drawing Account	44,599.91	38,871.13
Discharge and Transfers	<u>138,478.73</u>	<u>127,757.60</u>
	<u>183,078.64</u>	<u>166,628.73</u>
Cash Receipts (Under) Disbursements	(13,585.74)	(9,313.04)
Beginning Balance	<u>175,457.71</u>	<u>184,770.75</u>
Ending Balance	<u>\$161,871.97</u>	<u>\$175,457.71</u>

HUTTONSVILLE CORRECTIONAL CENTER

RECONCILIATIONS

JUNE 30, 2004

Commissary/Exchange Account

Balance per Bank		\$19,809.60
Add: Deposits-in-Transit		75,785.66
Less: Outstanding Checks	158	171.79
	183	<u>41.10</u>
		<u>212.89</u>
Balance per Book		<u>\$95,382.37</u>

Travel and Discharge Account

Balance per Bank		\$12,484.31
Less: Outstanding Checks	29264	<u>11.60</u>
		<u>11.60</u>
Balance per Book		<u>\$12,472.71</u>

Arts and Crafts Fund Account

Balance per Bank and Book		<u>\$2,349.18</u>
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HUTTONSVILLE CORRECTIONAL CENTER

RECONCILIATIONS

JUNE 30, 2004

Inmate Trustee Drawing Account

Balance per Bank \$144,728.67

Add: Deposits-in-Transit 7,964.46

Less: Outstanding Checks

Check No.	
41605	20.92
41713	20.00
41843	40.00
41892	16.70
42044	50.00
42050	40.00
42157	75.00
42183	11.42
42200	6.72
42238	5.00
42377	50.00
42533	7.47
42600	50.00
42620	5.00
42874	10.00
42919	10.00
42924	20.00
42960	30.00
43003	4.00
43020	15.00
43031	6.85
43034	4.00
43084	213.66
43085	15.00
43097	10.00
43100	57.91
43113	1.43
43116	6.30
43123	10.00
43135	27.50
43136	92.50
43139	33.94
43160	370.00
43165	64.99
43172	40.98
43182	5.00
43198	35.00
43199	10.00
43200	10.53
43203	29.99

HUTTONSVILLE CORRECTIONAL CENTER

RECONCILIATIONS

JUNE 30, 2004

Check No.	43208	25.00
	43211	20.00
	43219	7.57
	43233	20.00
	43235	20.00
	43248	100.00
	43261	61.99
	43263	44.99
	43266	10.00
	43271	5.00
	43272	55.00
	43274	5.00
	43277	8.00
	43281	5.00
	43285	10.00
	43288	10.00
	43290	30.69
	43296	48.94
	43299	6.55
	43306	10.00
	43307	10.00
	43308	20.00
	43309	79.99
	43318	61.99
	43319	55.97
	43324	68.75
	43328	11.25
	43329	23.86
	43330	424.11
	43331	17.50
	43332	37.50
	43333	9.00
	43334	33.44
	43335	33.44
	43336	22.50
	43338	26.50
	43340	10.00
	43342	50.00
	43343	30.00
	43345	100.00
	43350	5.00
	43351	20.00
	43353	82.50
	43355	29.99
	43357	5.00
	43358	152.48
	43359	15.05
	43360	52.34

HUTTONSVILLE CORRECTIONAL CENTER

RECONCILIATIONS

JUNE 30, 2004

Check No.	43366	40.00
	43368	75.00
	43374	29.99
	43375	49.99
	43376	54.99
	43378	47.94
	43379	25.00
	43380	49.95
	43381	21.94
	43382	390.06
	43383	20.40
	43384	102.49
	43385	20.35
	43386	50.00
	43387	8.00
	43388	98.79
	43389	6.50
	43390	40.00
	43391	20.00
	43392	20.00
	43393	20.00
	43394	446.00
	43395	370.00
	43396	150.00
	43397	100.00
	43398	85.92
	43399	102.90
	43400	79.99
	43401	2.50
	43402	30.00
	43403	12.00
	43404	14.00
	43405	30.01
	43406	20.00
	43407	<u>60.00</u>
		6,219.41
Bank Error		<u>0.50</u>
Balance per Book		<u><u>\$146,473.22</u></u>

HUTTONSVILLE CORRECTIONAL CENTER

RECONCILIATIONS

JUNE 30, 2004

Inmate Trustee Savings Account

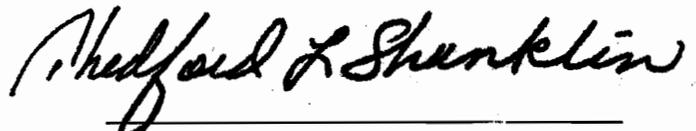
Balance per Bank			\$162,852.52
Add: Deposits-in-Transit			551.80
Less: Outstanding Checks	Check No.		
	10725		0.09
	10726		2.32
	10728		1.25
	10832		0.03
	10832		0.03
	10835		2.50
	10921		2.11
	10932		0.75
	11039		0.83
	11043		0.83
	11129		0.60
	11130		0.33
	11225		0.05
	11226		36.57
	11245		33.37
	11248		0.01
	11249		1.74
	11257		27.00
	11258		80.41
	11281		14.98
	11282		412.04
	11283		3.00
	11284		15.00
	11285		5.00
	11286		136.51
	11287		400.00
	11288		5.00
	11289		25.00
	11290		195.00
	11291		50.00
	11292		30.00
	11293		50.00
			<u>1,532.35</u>
Balance per Book			<u>\$161,871.97</u>

STATE OF WEST VIRGINIA

OFFICE OF THE LEGISLATIVE AUDITOR, TO WIT:

I, Thedford L. Shanklin, CPA, Director of the Legislative Post Audit Division, do hereby certify that the report appended hereto was made under my direction and supervision, under the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, and that the same is a true and correct copy of said report.

Given under my hand this 5th day of December 2004.



Thedford L. Shanklin, CPA, Director
Legislative Post Audit Division

Copy forwarded to the Secretary of the Department of Administration to be filed as a public record. Copies forwarded to the Huttonsville Correctional Center; Governor; Attorney General; State Auditor; and, Director of Finance, Department of Administrations.