

**STATE OF WEST VIRGINIA**

**AUDIT REPORT**

**OF**

***WEST VIRGINIA PRISON INDUSTRIES***

**FOR THE PERIOD**

**JULY 1, 1997 - JUNE 30, 2000**



**OFFICE OF THE LEGISLATIVE AUDITOR**

**CAPITOL BUILDING**

**CHARLESTON, WEST VIRGINIA 25305-0610**

**WEST VIRGINIA PRISON INDUSTRIES**

**FOR THE PERIOD**

**JULY 1, 1997 - JUNE 30, 2000**

**WEST VIRGINIA LEGISLATURE**  
*Joint Committee on Government and Finance*



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CHARLESTON, WEST VIRGINIA 25305-0610

To 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 the accounts of West Virginia Prison Industries.

Our examination covers the period July 1, 1997 through June 30, 2000. The results of this examination are set forth on the following pages of this report.

Respectfully submitted,

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

TLS/jdb

**WEST VIRGINIA PRISON INDUSTRIES**

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## **WEST VIRGINIA PRISON INDUSTRIES**

### **EXIT CONFERENCE**

We held an exit conference on December 18, 2001 with the Commissioner of Corrections, Director of Prison Industries and other representatives 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.

# **WEST VIRGINIA PRISON INDUSTRIES**

## **INTRODUCTION**

Prison Industries was established under Chapter 104, Acts of the Legislature in 1939.

The purpose for establishing this agency by the Legislature was to provide more adequate, regular and suitable employment for the convicts of this State, consistent with proper penal purposes; to further utilize the labor of convicts for self-maintenance and for reimbursing this State for expenses incurred by reason of their crimes and imprisonment; and to effect the requisitioning and disbursement of prison products directly through established State authorities with no possibility of private profits therefrom. Sale of prison made goods on the open market is prohibited and is confined to agencies or political sub-divisions of this State.

Prison Industries employs 47 civilian employees and approximately 250 inmates.

Prison Industries operates several shops at the various correctional facilities located throughout the State. Each shop and the correctional facility at which the shop is located is listed below.

### **Denmar Correctional Center (DCC)**

Inmate Clothing  
Upholstery

### **Huttonsville Correctional Center (HCC)**

Braille  
Furniture Plant  
Welding

### **Mount Olive Correctional Complex (MOCC)**

Braille  
Engraving  
Janitorial Supplies  
Sign Shop  
Tag Plant

**Northern Correctional Facility (NCF)**  
Print Shop

**Pruntytown Correctional Center (PCC)**  
Janitorial Supplies  
Linen Shop  
Seating

**St. Mary's Correctional Center (SMCC)**  
Mattress Factory  
Validation Decals

The types of products produced by inmates in these shops include the following: inmate clothing, braille books, office furniture, welding products (such as bunk beds and tables), engraving products (such as plaques and name plates), janitorial supplies, street signs, license plates, printing orders (such as business cards and agency forms), linens, office chairs, mattresses, and validation decals.

During August 1998 and November 1999, Prison Industries acquired the Consolidated Publishing Facility (CPF) from the Division of Purchasing resulting from signed agreements between the Director of the Division of Purchasing and the Commissioner of Corrections. The following CPF operations were transferred to Prison Industries: off-set printing services, pre-press printing services, Quick Copy Center, and Central Stockroom. With the acquisition of these operations, Prison Industries is now the primary agency responsible for printing services for all State agencies.

**WEST VIRGINIA PRISON INDUSTRIES**  
**ADMINISTRATIVE OFFICERS AND STAFF**

**AS OF JUNE 30, 2000**

Paul Kirby ..... Commissioner, Division of Corrections

George D. Hampton, III ..... Director

James Gray ..... Deputy Director

Steve Freed ..... Deputy Director

George Hill,  
Plant Superintendent ..... Mt. Olive Correctional Complex

Ron Pingley,  
Plant Superintendent ..... Huttonsville Correctional Center

Juanita Herron,  
Plant Superintendent ..... Pruntytown Correctional Center

John Glover,  
Plant Superintendent ..... Northern Correctional Facility

Charles Welling,  
Plant Superintendent ..... St. Mary's Correctional Center

Richard George,  
Supervisor ..... Denmark Correctional Center

John Crowder,  
Supervisor ..... Quick Copy Center

Betty Slack ..... Business Manager

Guy Perry ..... Sales Representative

Julie Short ..... Accounting Tech III

Karen Lane ..... Accounting Tech III

Angela Jividen ..... Office Assistant

## WEST VIRGINIA PRISON INDUSTRIES

### SUMMARY OF FINDINGS, RECOMMENDATIONS AND RESPONSES

#### Lack of Effective System of Internal Controls

1. Prison Industries did not have an effective system of internal control in place. This resulted in 15 compliance findings.

#### Auditor's Recommendation

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

#### Agency's Response

*WVPI has initiated steps to strengthen internal controls to ensure compliance with WV Code to include, but not limited to, employee training and education, reorganization and updated employee job descriptions by function. (See Pages 16-19)*

#### Annual Financial Statements

2. During our examination, we noted Prison Industries did not prepare financial statements at the end of each fiscal year as required by West Virginia Code.

#### Auditor's Recommendation

We recommend Prison Industries employ a qualified accountant to maintain financial records and prepare financial statements to comply with Chapter 28, Article 5B, Section 10 of the West Virginia Code.

**Agency's Response**

*We concur with this finding.*

1. *Beginning the week of January 7, 2002, all Business Office employees will be refreshed and/or trained on the PT2000 program.*
2. *Overtime hours will be approved for loading their respective data.*
3. *An additional full time employee has been requested. If approved, this individual will spend approximately 75% of their time working with this program until completed.*
4. *Projected completion date - March 31, 2002. (See Pages 19-22)*

**Sales of Prison Made Goods on Open Market**

3. During our test of sales revenue transactions we noted 53 instances totaling \$168,020.76 in which Prison Industries sold goods on the open market to various organizations which were not eligible to purchase goods from Prison Industries.

**Auditor's Recommendations**

We recommend West Virginia Prison Industries comply with Chapter 28, Article 5B, Sections 4 and 15 of the West Virginia Code, as amended. We further recommend written procedures be developed outlining who is eligible to purchase products manufactured by Prison Industries.

**Agency's Response**

***Issue No. 1***

*We concur with this finding. Several years ago the Director of WVPI made a presentation to the Regional Jail and Correctional Facility Authority expressing the same philosophy as the Legislative Post Audit Division. It should be noted that in regard to furniture as opposed to detention equipment, Prison Industries deals directly with the Regional Jail Authority.*

*Issue No. 2*

*We concur with this finding. The questionnaire will be revamped to comply with the Audit. We will also develop a draft policy for submission to the Commissioner in compliance with Legislative intent. (See Pages 22-27)*

**Transfer of Consolidated Publishing Facility  
Debt to Prison Industries**

4. With the acquisition of the former Consolidated Publishing Facility (CPF) operations, Prison Industries assumed a total of \$2,583,522.54 of debt service payable over five years.

**Auditor's Recommendation**

We recommend that the Agency comply with the provisions of Chapter 28, Section 5B, Article 13 of the West Virginia Code, as amended. We further recommend Prison Industries not make payments on equipment not transferred to them.

**Agency's Response**

*We concur with this finding. We have been diligently striving to reduce this debt and have been adamant about not incurring any additional debt until we are in compliance with code and then only if absolutely necessary. (See Pages 28-30)*

**Transfer of Consolidated Publishing  
Facility to Prison Industries**

5. When Prison Industries acquired the Consolidated Publishing Facility (CPF) from the Division of Purchasing, PI was to obtain all equipment utilized by CPF. However, based on the CPF equipment inventory listings showing what equipment PI was to receive, we noted the following conditions: equipment reflected on the inventory

listings valued at \$149,882.00 could not be located or properly identified; equipment valued at \$173,812.00 also reflected on these listings had been loaned out to other State agencies on a long-term basis prior to Prison Industries acquiring CPF; and 78 equipment items located at the CPF facilities were not reflected on these listings.

**Auditor's Recommendation**

We recommend Prison Industries comply with Sections 4.1 and 4.7 of the Surplus Property Handbook, as amended. We also recommend that the Agency comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended. We further recommend an accurate inventory be taken and an attempt be made to account for all items.

**Agency's Response**

***Issue 1 - Offset Print Operations (1<sup>st</sup> Transfer)***

***We concur with this audit finding.***

***Issue 2 - Quick Copy Operations (2<sup>nd</sup> Transfer)***

***We concur with this audit finding. We have entered all equipment found and identified into the FIMS Fixed Asset System. (See Pages 30-39)***

**Products Sold by Prison Industries Produced by State Employees and not Convict Labor**

6. During the period August 1998 through November 1999, the Consolidated Publishing Facility (CPF) was transferred from the Division of Purchasing to Prison Industries. As a result of the transfer State employees who had worked for CPF were producing the product sold by Prison Industries.

**Auditor's Recommendation**

We recommend that the Agency comply with Chapter 28, Article 5B, Section 4 of the West Virginia Code.

**Agency's Response**

*We concur with this finding. We were instructed to transfer the employees. We have employed six inmates at this site. Our intention is to replace employees with inmates through attrition. (See Pages 39 and 40)*

**Accounts Receivable**

7. As a result of the confirmation of accounts receivable, we noted \$222,400.01 of the Agency's accounts receivable applicable to 27 customer accounts were in dispute.

**Auditor's Recommendation**

We recommend Prison Industries comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, as amended. We also recommend Prison Industries review their records to arrive at a more accurate accounts receivable balance and adjust the allowance for uncollectible accounts to reflect the disputed amount.

**Agency's Response**

*We concur with this finding. We believe the \$771,334.12 determined through this audit is closer to actual receivables. We have implemented internal controls within the Business Office to check on a daily basis the FIMS system to obtain any payments made via IGT. The Aged Receivables report is reviewed monthly by the Business Manager. (See Pages 41-43)*

**Payment for Additional Security  
at Huttonsville Correctional Center**

8. Prison Industries paid \$101,545.90 to Huttonsville Correctional Center (HCC) as reimbursement for correctional officers who provided security for Prison Industries. However, Agency personnel told us that correctional officers were not stationed in the Prison Industries facilities at HCC during this period or subsequent periods.

**Auditor's Recommendation**

We recommend Prison Industries comply with Chapter 28, Article 5B, Section 14 of the West Virginia Code, as amended.

**Agency's Response**

*We concur with this finding, however, the intent was to reimburse the full amount of the temporary officers' salaries. We have ceased this practice.* (See Pages 43-45)

**Duplicate Payments**

9. During the period July 1, 1997 through June 30, 1998, Prison Industries made 45 duplicate payments totaling \$26,600.34. Upon reviewing the agency's deposit records, we noted the Agency recovered \$16,078.15 of the total amount overpaid.

**Auditor's Recommendation**

We recommend Prison Industries comply with Chapter 28, Article 5B, Section 14 of the West Virginia Code, as amended, as well as Chapter 11, Article 15, Section 9 of the West Virginia Code, as amended. We further recommend Prison Industries collect any amounts overpaid.

**Agency's Response**

*We concur with this finding. With the implementation of PT2000 and enhancements to the FIMS payment system, duplicate payments are no longer processed. WVPI will seek reimbursement from vendors that received duplicate payments. (See Pages 45-50)*

**Purchasing Procedures Not Followed**

10. During our audit period we noted numerous instances where purchasing procedures were not followed.

**Auditor's Recommendation**

We recommend West Virginia Prison Industries comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended. In addition, we recommend Prison Industries comply with the Division of Purchasing's Agency Purchasing Manual.

**Agency's Response**

*We concur with this finding. Internal controls have been implemented within WVPI to eliminate these findings. (See Pages 50-53)*

**Payment of Various Correctional Facilities'  
Inmate Payrolls by Prison Industries**

11. During the period July 1, 1997 through June 30, 2000, we noted 266 instances totaling \$470,824.53 where Prison Industries had paid the May/June inmate payrolls of other correctional facilities at the end of each fiscal year. None of these payrolls represented wages owed to Prison Industries' inmate employees. With the start of each new fiscal year, Prison Industries' special revenue account would be reimbursed by these other correctional facilities.

**Auditor's Recommendation**

We recommend West Virginia Prison Industries comply with Chapter 28, Section 5B, Article 14 of the West Virginia Code, as amended, as well as Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, as amended.

**Agency's Response**

*The Division of Corrections facilities process under the direction of the Director of Administration "outside" work crew payrolls for the month of June through the Prison Industries account, for clearing purposes only. In order to assist, the Division of Corrections, Director of Prison Industries and Administration agreed to this arrangement several years ago. (See Pages 53-55)*

**Former Employee Paid for Services Not Rendered**

12. We noted one employee whose sick and annual leave accruals and balances were misstated for several months during 1999 and 2000. We noted 27 instances during the period April 1999 through July 2000 where he was granted the use of sick and annual leave in advance of actually accruing said leave. In addition, this employee was paid for services not rendered while he was on leave of absence without pay. These errors resulted in a cumulative overpayment of \$7,625.90 for 1999 and 2000.

**Auditor's Recommendation**

We recommend West Virginia Prison Industries comply with Sections 15.3 and 15.4 of the West Virginia Division of Personnel's Administrative Rule, as amended, and with Chapter 12, Article 3, Section 13 of the West Virginia Code, as amended. In addition, we recommend West Virginia Prison Industries continue to seek

reimbursement from this employee for the total amount of overpayment in accordance with Chapter 14, Article 1, Section 1 of the West Virginia Code, as amended.

**Agency's Response**

*We concur with this Audit Finding. WVPI, through the Attorney General's Office, sought legal remedy against this employee. (See Pages 56-59)*

**Erroneous Expense to Expense Transfers**

13. During our testing of inmate payroll, we noted three instances where West Virginia Prison Industries did not properly reimburse Pruntytown Correctional Center (PCC) for monthly wages totaling \$3,784.74 which were owed to inmates employed by Prison Industries.

**Auditor's Recommendation**

We recommend the agency comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended. Also, we recommend Prison Industries reimburse Pruntytown for the total amount improperly reimbursed.

**Agency's Response**

*With concur with this Audit Finding. This was an oversight of processing reverse expense transactions. WVPI employees have been properly trained on expense to expense processing. (See Pages 59-61)*

**Incorrect Payments to Terminating Employees**

14. During our test of sick and annual leave we noted three instances in which employees who resigned from the Agency were improperly compensated a total of \$1,422.35 when removed from the payroll.

**Auditor's Recommendation**

We recommend West Virginia Prison Industries comply with Chapter 12, Article 3, Section 13 of the West Virginia Code, as amended.

**Agency's Response**

*We concur with this Audit Finding. We have implemented internal controls to prevent these findings from happening. (See Pages 62 and 63)*

**Former Employee Improperly Reimbursed for Travel Expenditures**

15. During our examination of travel expenditures, we noted a former PI sales representative was improperly reimbursed a total of \$632.56 for travel expenses claimed over the period June 1998 through January 1999.

**Auditor's Recommendation**

We recommend Prison Industries comply with the West Virginia Travel Regulations when approving employee travel expenses for payment.

**Agency's Response**

*We concur with this Audit Finding. It should be noted that the former PI Sales Representative submitted some travel reimbursement forms through our administrative offices and some travel reimbursement forms through a former Commissioner, making it difficult to accurately account for travel expenses. (See Pages 64-67)*

**No Documentation For Sales Commissions Paid**

16. We could not find any documentation for sales commissions totaling \$1,831.82 paid to one employee.

**Auditor's Recommendation**

We recommend West Virginia Prison Industries comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended.

**Agency's Response**

*We concur with this Audit Finding. The Director of WVPI has a disagreement with this Sales Rep concerning the amount of commission earned. The Director was subsequently called to the former Commissioner's Office and ordered to pay the amount found during the audit. (See Pages 67 and 68)*

**WEST VIRGINIA PRISON INDUSTRIES**

**GENERAL REMARKS**

**INTRODUCTION**

We have completed a post audit of West Virginia Prison Industries (PI). The audit covered the period July 1, 1997 through June 30, 2000.

**SPECIAL REVENUE ACCOUNT**

Expenditures required for the general operation of Prison Industries were paid from the following special revenue account:

<b><u>FUND NUMBER</u></b>	<b><u>DESCRIPTION</u></b>
6303 .....	West Virginia Prison Industries

**COMPLIANCE MATTERS**

Chapter 28, Article 5B of the West Virginia Code generally governs Prison Industries. We tested applicable sections of the above plus other applicable chapters, articles, and sections of the West Virginia Code as they pertain to financial 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, Prison Industries did not have an effective system of internal controls in place to ensure compliance with applicable State Laws, Rules and Regulations.

Chapter 5A, Article 8, Section 9 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 agency head to have in place an effective system of internal controls in the form of policies and procedures set up to ensure the agency operates in compliance with the laws, rules and regulations which govern it.

During our audit of Prison Industries (PI), we found the following noncompliance with State laws or other rules and regulations: (1) During our examination, we noted Prison Industries did not prepare financial statements at the end of each fiscal year as required by West Virginia Code. (2) During our test of sales revenue transactions we noted 53 instances totaling \$168,020.76 in which Prison Industries sold goods on the open market to various organizations which were not eligible to purchase goods from Prison Industries. (3) With the acquisition of the former CPF operations, Prison Industries assumed a total of \$2,583,522.54 of debt service payable over five years. (4) When Prison Industries acquired the Consolidated Publishing Facility (CPF) from the Division of Purchasing, PI was to obtain all equipment utilized by CPF. However, based on the CPF equipment inventory listings showing what equipment PI was to receive, we noted the following conditions: equipment reflected on the inventory listings valued at \$149,882.00 could not be located or properly identified; equipment valued at \$173,812.00 also reflected on these listings had been loaned out to other State agencies on a long-term basis prior to Prison Industries acquiring CPF; and 78 equipment items located at the CPF facilities were not reflected on these listings. (5) During the period August 1998 through November 1999, the Consolidated Publishing Facility (CPF)

was transferred from the Division of Purchasing to Prison Industries. As a result of the transfer State employees who had worked for CPF instead of inmates were producing the product sold by Prison Industries. (6) As a result of the confirmation of accounts receivable, we noted \$222,400.01 of the Agency's accounts receivable applicable to 27 customer accounts were in dispute. (7) Prison Industries paid \$101,545.90 to Huttonsville Correctional Center (HCC) as reimbursement for correctional officers who provided security for Prison Industries. However, Agency personnel told us that correctional officers were not stationed in the Prison Industries facilities at HCC during this period or subsequent periods. (8) During the period July 1, 1997 through June 30, 1998, Prison Industries made 45 duplicate payments totaling \$26,600.34. Upon reviewing the agency's deposit records, we noted the Agency recovered \$16,078.15 of the total amount overpaid. (9) During our audit period we noted numerous instances where purchasing procedures were not followed. (10) During the period July 1, 1997 through June 30, 2000, we noted 266 instances totaling \$470,824.53 where Prison Industries had paid the May/June inmate payrolls of other correctional facilities at the end of each fiscal year. None of these payrolls represented wages owed to Prison Industries' inmate employees. With the start of each new fiscal year, Prison Industries' special revenue account would be reimbursed by these other correctional facilities. (11) We noted one employee whose sick and annual leave accruals and balances were misstated for several months during 1999 and 2000. We noted 27 instances during the period April 1999 through July 2000 where he was granted the use of sick and annual leave in advance of actually accruing said leave. In addition, this employee was paid for services not rendered while he was on leave of absence without pay. These errors resulted in a cumulative overpayment of \$7,625.90 for 1999 and 2000. (12) During our testing of inmate payroll, we noted three instances where West Virginia Prison Industries did not properly reimburse

Pruntytown Correctional Center (PCC) for monthly wages totaling \$3,784.74 which were owed to inmates employed by Prison Industries. (13) During our test of sick and annual leave we noted three instances where employees who resigned from the Agency were improperly compensated a total of \$1,422.35 when removed from the payroll. (14) During our examination of travel expenditures, we noted a former PI sales representative was improperly reimbursed a total of \$632.56 for travel expenses claimed over the period June 1998 through January 1999. (15) We could not find any documentation for sale commissions totaling \$1,831.82 paid to one employee.

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

#### **Agency's Response**

*WVPI has initiated steps to strengthen internal controls to ensure compliance with WV Code to include, but not limited to, employee training and education, reorganization and updated employee job descriptions by function. The Director will also write policy directives for approval by the Commissioner as recommended by this audit.*

#### **Annual Financial Statements**

During our examination, we noted Prison Industries did not prepare financial statements at the end of each fiscal year as required by State law and as noted in a prior audit. Prison Industries is in noncompliance with Chapter 28, Article 5B, Section 10 of the West Virginia Code which states:

*"The warden of the penitentiary and the manager or authorities by whatever name known having charge of the penal institutions of this state shall annually make a full detailed statement of all materials, machinery, or other property procured, and the cost thereof, and of the expenditures made during the last preceding year for manufacturing*

purposes, together with a statement of all materials then on hand to be manufactured, or in process of manufacture, or manufactured, and all machinery, fixtures or other appurtenances for the purpose of carrying on the labor of the convicts and the earnings realized during the last preceding year as the proceeds of the labor of the convicts at the penitentiary or such penal institutions of this state, which statement shall be verified by the oath of the warden or such manager or authorities having charge of such penal institutions to be just and true, and shall be by him or them forwarded to the state commissioner of public institutions [commissioner of corrections] within thirty days after the end of such last preceding year."

Without the benefit of prepared financial statements, Prison Industries does not have all of the necessary management tools available to enable the Agency to adequately plan its financial operations. The director told us financial statements have not been prepared in preceding years because the Agency did not have the capability to produce such statements. However, he explained that beginning on July 1, 2000 the Agency would be implementing a new computerized accounting system (Peachtree 2000) which would allow the Agency to generate its own financial statements in the near future.

We recommend Prison Industries employ a qualified accountant to maintain financial records and prepare financial statements to comply with Chapter 28, Article 5B, Section 10 of the West Virginia Code.

**Agency's Response**

***We concur with this finding.***

***We are continuing to work towards our goal of financial reporting. The Peachtree 2000 (PT2000) system was purchased and installed. All business office employees have been trained on this system, except one. A temporary employee was hired and trained to input data into the system. The following has been completed in the PT2000 system:***

1. *All FY01 Accounts Payables have been entered;*
2. *All FY01 Accounts Receivables Cash Receipts/Sales Journal entries have been entered;*
3. *All raw material inventory was taken June 30, 2001 and entered into the system;*
4. *The majority of all assemblies (finished product) have been accomplished and entered into the system.*

*PT2000 is a canned software program for Industrial Accounting; however, our company had to be built within this program. This was a major undertaking since only the Business Manager was available and did not have 100% time to spend on this system. A temporary employee was hired to assist with the loading of PT2000. She was able to spend about 50% of her time on this project due to other priorities occurring that required her attention.*

*The following sets forth our proposed plan for completing the back fill of this system and have accurate financial data for years 2001 forward.*

1. *Beginning the week of January 7, 2002, all Business Office employees will be refreshed and/or trained on the PT2000 program.*
2. *Overtime hours will be approved for loading their respective data.*
3. *An additional full time employee has been requested. If approved, this individual will spend approximately 75% of their time working with this program until completed.*
4. *Projected completion date - March 31, 2002.*

*Financial Accountability Currently in Place:*

1. *Daily Account Status Reports from FIMS.*
2. *Revenue vs. Expenses and Working Capital Report (Monthly)*
3. *Fixed Assets entered into FIMS system.*
4. *FIMS is checked on a regular basis by A/R personnel to obtain IGT payments.*
5. *Assure no duplicate A/P payments are processed.*
6. *We monitor and spot-check A/P and A/R payments and invoices.*

7. *Both Accounting Technicians have received Crystal Reports training and software has been ordered and received.*
8. *Cleaned up Aged Receivables. Posted all payments that had been received, but not posed. Checking FIMS for IGT payments eliminated this problem.*
9. *Prepared unaudited Annual Reports for fiscal years 1999, 2000 and 2001.*

**Sales of Prison Made Goods on Open Market**

During the period July 1, 1997 through June 30, 2000, we noted the following 11 instances of Prison Industries selling various products produced in their welding shop to customers who were not eligible to purchase goods from PI:

<u>Customer</u>	<u>Description of Goods Purchased</u>	<u>Number of Instances</u>	<u>Total Amount Received</u>
G-S Company	4-man/6-man tables & mirrors	7	\$159,780.00
March-Weston Company, Inc.	wire mesh gates	2	1,160.00
Tmaro Corporation	shelves/window frame anchors	<u>2</u>	<u>833.00</u>
Total		11	<u>\$161,773.00</u>

The items reflected in the preceding table were assembled by the welding shop operated as part of the PI facility at the Huttonsville Correctional Center (HCC). This detention equipment (4-man tables, mirrors, etc.) was purchased by private companies and eventually installed in various regional jails and correctional facilities.

The Director of Prison Industries told us the companies making the purchases were involved in WV Regional Jail or correctional facility construction as contractors. Specifically, G-S Company is the subcontractor who was awarded the detention section of the bid placed by the

successful general contractor selected by the Regional Jail and Correctional Facility Authority (RJ&CFA) to undertake the construction of the various regional jails and correctional facilities throughout West Virginia. The March-Weston Company and Tmaro Corporation were the prime contractors on the expansion work conducted at Huttonsville Correctional Center.

Prison Industries assembles an assortment of detention equipment to include bunks, 4 hook shelves, tables, mirrors, writing tables, and metal stools. When a regional jail/correctional facility site is under construction, subcontractors will solicit bids from various suppliers (including Prison Industries) for the provision of this type equipment. If PI is the successful bidder, the product will be manufactured and delivered to the jail site by Agency personnel. Upon delivery, Prison Industries will then invoice the subcontractor at the agreed upon bid prices.

These sales transactions are in noncompliance with Chapter 28, Article 5B, Section 4 of the West Virginia Code which states in part,

“On and after the effective date of this article [June 7, 1939] all offices, departments, institutions and agencies of this state which are supported in whole or in part by this state shall purchase, and all political subdivisions of this state may purchase, from the state commissioner of public institutions [commissioner of corrections] all articles or products required by such offices, departments, institutions, agencies or political subdivisions of this state, produced or manufactured by the state commissioner of public institutions [commissioner of corrections] by convict labor...”

In addition, these sales transactions are in noncompliance with Chapter 28, Article 5B, Section 15 of the West Virginia Code, as amended, which states in part,

“(a) Subject to the provisions of subsections (b) and (c) of this section, it is unlawful to sell or offer for sale on the open market of this state any articles or products manufactured or produced, wholly or in part, in this or any other state, by convicts or prisoners of this state, or any other state, except convicts or prisoners on parole or

probation. This provision does not apply to the sale of products made with waste tires: Provided, That any use of waste tires shall comply with applicable laws and rules of the division of environmental protection: Provided, however, That any products made by inmates from waste tires and sold on the open market must be competitively priced with privately produced goods of the same nature and may not be sold at a loss: Provided further, That any profits earned from the sale of products made by inmates from waste tires shall be distributed as follows: First, to the prison industries fund to reimburse all moneys expended in the collection of waste tires and the production of waste tire products, including a reasonable amount to be set aside for the periodic replacement of outdated, obsolete or inoperable machinery or equipment used in collection or production, and second, any moneys remaining shall be divided equally between the prison industries fund and the crime victims compensation fund established by the provisions of section two [§ 14-2A-2], article two-a, chapter fourteen of this code.

(b) Any person violating the provisions of this section is guilty of a misdemeanor and, upon conviction, shall be punished by a fine of not less than two hundred dollars nor more than five thousand dollars, or by imprisonment in jail not less than three months nor more than one year, or by both fine and imprisonment. Each sale or offer for sale shall constitute a separate offense under this section.

(c) Notwithstanding the provisions of subsection (a) of this section, any articles or products manufactured or produced, wholly or in part, by inmates of West Virginia penal and correctional institutions and facilities which are designed and intended to be used solely by blind and handicapped persons, including, but not limited to, braille books and reading materials, may be sold or offered for sale or distributed on the open market by the department of corrections or other state department or agency....”

West Virginia Prison Industries selling this detention equipment to regional jail subcontractors rather than directly to the regional jails/correctional facilities may result in the State of West Virginia paying more for these products than is necessary. Since PI is producing detention equipment which is used in the construction of regional jails and correctional institutions, the sale should be made directly to the jail or applicable State agency to comply with the West Virginia Code and to avoid a cost markup by the contractor.

The PI director stated these transactions were allowable under the law since the end user was the State of West Virginia and this equipment was delivered directly to the designated jail site. However, we believe these private sales do not comply with the aforementioned Code section since the Code section specifically lists who can buy from Prison Industries and contractors performing work for State agencies are not included.

During the period July 1997 through June 2000, we noted an additional 42 instances totaling \$6,247.76 in which Prison Industries sold goods to various organizations which we believe were not eligible to purchase goods from PI:

<u>Customer</u>	<u># of Instances</u>	<u>Total Amount</u>
Southern States Correctional Association / WV Association of Correctional Employees	9	\$ 259.33
SMCC Employee Association	1	97.47
NCF Employees Association	18	188.10
Gauneka Ruritan	1	28.75
Hundred Insurance Agency, Inc.	1	145.98
Sondra J. Hewitt / City of Moundsville	1	12.00
Mountain State Street Machines, Inc.	1	180.00
Logan County Genealogical Society	1	158.00
Arthurdale Heritage, Inc.	1	89.63
WV Lion's Club / Council of Governor's	2	2,580.00
WV Lion's Club / Leadership School	3	785.50
Avar Community Services (Nicholas J. Hun, Pres.)	1	770.00
Lower Paint Creek Association, Inc.	1	305.00
Honeywood Homeowner's Association	<u>1</u>	<u>648.00</u>
Total	42	<u>\$6,247.76</u>

The aforementioned instances of ineligible organizations purchasing goods from PI were the result of PI having no established procedures which could be consistently applied to determine who was eligible to purchase prison industry products. In effect, Prison Industry's sales to private organizations not eligible to purchase from them puts them in competition with private industry. We further believe each of these instances is in noncompliance with the preceding Code section.

The director stated employee associations and other miscellaneous organizations were allowed to purchase goods from PI since the Agency believed these organizations did receive some manner of State funding or assistance. Specifically, individuals representing the organizations Gauneka Ruritan and the West Virginia Lion's Club (Council of Governors) informed the director that their organizations did receive State funding. According to his interpretation of the West Virginia Code any organization receiving State funds is eligible to purchase from Prison Industries. However, the Code states Institutions and Agencies of the State who receive State funds and Political Subdivisions of the State are eligible to purchase Prison Industries products.

In addition, the director explained that a standard form is currently in development that customers would be required to complete when placing an order with PI. This form will include questions that will ensure that PI employees are aware of how the ordering organization is funded. In addition, the form will require that the person placing the order sign the form attesting to the eligibility of the Agency.

We recommend West Virginia Prison Industries comply with Chapter 28, Article 5B, Sections 4 and 15 of the West Virginia Code, as amended. We further recommend written procedures be developed outlining who is eligible to purchase products manufactured by Prison Industries.

**Agency's Response**

**Issue No. 1**

***We concur with this finding.***

***Several years ago the Director of WVPI made a presentation to the Regional Jail and Correctional Facility Authority expressing the same philosophy as the Legislative Post Audit Division. However, we were advised that we had to bid our products if we wanted any of the work. The Architectural Firms were against direct purchase from Industries, but did agree to list us as a qualified vendor. It should be noted that in regard to furniture as opposed to detention equipment, Prison Industries deals directly with the Regional Jail Authority.***

**Issue No. 2**

***We concur with this finding.***

***A form has been developed and put in use. However, this form will need to be revamped. WVPI used the receipt of state funds wholly or in part, or funding from a political subdivision as the primary test enabling organizations to purchase from them. The Legislative Post Audit Division has a stricter definition base on the entity being authorized to purchase as a component or sub-component of the state or political subdivision. For example, with the exception of three or these customers which were definitely not authorized to purchase, the remaining groups were either given funds or reimbursed by the State or political subdivision.***

***The questionnaire will be revamped to comply with the Audit. We will also develop a draft policy for submission to the Commissioner in compliance with Legislative intent.***

**Transfer of Consolidated Publishing Facility**  
**Debt to Prison Industries**

When Prison Industries acquired the Consolidated Publishing Facility in 1998 and 1999, they also acquired debt service in the amount of \$2,583,522.54 payable over five years. This exceeds both the allowable amount of \$1,000,000.00 and the time period of three years specified in the West Virginia Code for debt service.

Prison Industries is in noncompliance with Chapter 28, Section 5B, Article 13 of the West Virginia Code, as amended, which states:

**“In order to carry out the provisions of this article there is hereby appropriated out of the moneys in the state fund, general revenue, not otherwise appropriated, the sum of fifty thousand dollars, and the commissioner of the division of corrections is authorized to expend such moneys from such appropriation as may be necessary to erect buildings, to purchase equipment, to procure tools, supplies and materials, to purchase, install or replace equipment, to employ personnel, and otherwise to defray the necessary expenses incident to the employment of convicts as herein provided, and further to aid in the above purposes the commissioner of the division of corrections is empowered to enter into contracts and agreements with any person or persons upon a self-liquidating basis respecting the acquisition and purchase of any such equipment, tools, supplies and materials, to the end that the same may be paid for over a period of not exceeding three years, and the aggregate amount of such purchases or acquisitions not to exceed one million dollars, such amounts to be payable solely out of the revenues derived from the activities authorized by this article. Nothing in this section shall be so construed or interpreted as to authorize or permit the incurring of a state debt of any kind or nature as contemplated by the constitution of this state in relation to such debt.” (Emphasis added).**

With the acquisition of the former CPF operations, Prison Industries assumed \$1,532,361.34 in debt still owed on the following pieces of equipment:

<u>No.</u>	<u>Machine</u>	<u>Acquisition Date</u>	<u>Debt Acquired</u>
1	2 Sakurai Presses	Aug. 1998	\$ 755,662.66
2	Speed Punch	Nov. 1999	67,469.55
3	Xerox 6180	Nov. 1999	219,745.83
4	Xerox 6180	Nov. 1999	219,745.83
5	Xerox Controller	Nov. 1999	17,692.23
6	Xerox Controller	Nov. 1999	17,692.23
7	Xerox Doc 40	Nov. 1999	77,908.17
8	Xerox Fiery Controller	Nov. 1999	35,968.14
9	Xerox 5790 Copier	Nov. 1999	26,825.55
10	2 Docutech 135	Nov. 1999	<u>93,651.15</u>
	Total		<u>\$1,532,361.34</u>

Through June 30, 2000, PI has made payments totaling \$246,005.37 on the two sakurai presses and a payment of \$3,848.61 on the speed punch. When Quick Copy was acquired in November 1999, the Agency purchased two new docutech 6180s from Xerox Corporation to upgrade the printing operation. The following table reflects the new equipment purchased and the additional debt assigned to each item.

<u>No.</u>	<u>Machine</u>	<u>Acquisition Date</u>	<u>Debt Acquired</u>
1	Xerox 6180	Nov. 1999	\$ 550,375.20
2	Controller	Nov. 1999	35,212.80
3	Xerox 6180	Nov. 1999	394,254.80
4	Controller	Nov. 1999	35,212.80
5	D161SYS	Nov. 1999	18,096.00
6	D151PC	Nov. 1999	<u>18,009.60</u>
	Total		<u>\$1,051,161.20</u>

To help finance these new equipment purchases from Xerox, Prison Industries traded in five pieces of equipment and refinanced the debt on two other existing pieces of equipment. Two of the items traded in were the two docutech 135s reflected in the first table. Prison Industries paid \$93,651.15 plus interest to Finova to satisfy the debt owed on these machines. The other three pieces of equipment (two docutech 135s and one docutech NP1352) traded in were financed through Xerox. The outstanding principal still owed on these three machines was refinanced as part of the total cost of the two new 6180s purchased by the Agency.

In addition, the \$26,825.55 debt owed on the Xerox 5790 Color Copier shown in the first table became the responsibility of Prison Industries when PI assumed control of Quick Copy. However, during our examination we learned this equipment item was given to WV Celebration 2000 on long-term loan prior to PI obtaining Quick Copy. Even though Prison Industries does not have the use of this machine, Prison Industries is still liable to Xerox for the outstanding debt.

Prison Industries is currently operating with more debt than allowed under State law. We believe this excessive debt could threaten Prison Industries' ability in the future to maintain its operations if payments cannot be made. The transfer of the Consolidated Publishing Facility to Prison Industries was based on signed agreements between the Director of the Division of Purchasing and the Commissioner of Corrections.

We recommend that the Agency comply with the provisions of Chapter 28, Section 5B, Article 13 of the West Virginia Code, as amended. We further recommend Prison Industries not make payments on equipment not transferred to them.

#### **Agency's Response**

*We concur with this finding.*

*WVPI never had debt until the transfer of Printing Services from the former CPF. During the second part of the transfer (Quick Copy), we asked for permission to renegotiate the debt with Xerox to get it to what we believed a manageable monthly level. We have been diligently striving to reduce this debt and have been adamant about not incurring any additional debt until we are in compliance with code and then only if absolutely necessary.*

#### **Transfer of Consolidated Publishing Facility to Prison Industries**

When Prison Industries took over the Consolidated Publishing Facility (CPF) from the West Virginia Purchasing Division in 1998 and 1999 there was no accurate inventory of the

equipment physically transferred. Instead an inventory listing provided by the Purchasing Division included equipment that had been loaned or given to other State agencies, equipment which has yet to be located or accounted for and equipment with serial numbers which differ from those on the equipment items actually transferred. In addition one color copier valued at approximately \$23,000 and numerous other equipment items were not included on the inventory list provided by the Purchasing Division, but were among the items physically transferred to Prison Industries. This situation resulted from the agencies not following the procedures established in the Surplus Property Handbook relating to the transfer of equipment.

During August 1998 and November 1999, Prison Industries acquired the Consolidated Publishing Facility from the Division of Purchasing as the result of signed agreements (Memorandum of Understanding) between the Director of the Division of Purchasing and the Commissioner of Corrections. According to these agreements all equipment, supplies and inventory was to be transferred from the Department of Administration to Prison Industries. In August 1998 PI obtained CPF's offset press/pre-press printing operation and then obtained the Quick Copy Center and Central Stockroom in November 1999. Upon reviewing Purchasing's equipment listings of equipment which should have been transferred to PI, we noted 10 equipment items reflected on these listings which could not be accounted for by the Agency. These items totaling \$149,882.00 are detailed in the following schedule:

<u>Description of Item</u>	<u>Serial #</u>	<u>Model #</u>	<u>Acquisition Date</u>	<u>Original Value</u>
Controller for server - Xerox Corp	D3H-I00093	Unknown	02/14/97	\$ 31,840.00
Controller for server - Xerox Corp	D3H-100007	Unknown	02/14/97	31,840.00
Dell XPS Dim 266	BYCV1	Unknown	12/30/97	4,994.00
Dell XPS Dim 266	DNXB	DIM 266	12/30/97	4,994.00
HP Vectra Semes4	US64052624	Unknown	01/13/97	3,098.00

<u>Description of Item</u>	<u>Serial #</u>	<u>Model #</u>	<u>Acquisition Date</u>	<u>Original Value</u>
Network server	Unknown	Unknown	07/21/97	18,499.00
Scanner XDOD for server - Xerox Corp.	OH6-016008	Unknown	03/04/97	23,295.00
Toshiba T4400 SXC computer	T4400	SXC	08/30/92	5,460.00
Toshiba T4400 SXC Notebook	Unknown	T4400	10/23/92	5,112.00
Xerox Docuimage - Print on demand	CPF8640D	Unknown	11/19/98	<u>20,750.00</u>
Total				<u>\$149,882.00</u>

The PI director believes the two controllers are components of two Xerox Docutech 6180s presently installed at the Quick Copy Center but is unable to identify them at this time. He stated Quick Copy does have four servers but none of the serial numbers matched the ones on the Division of Purchasing equipment listing. The director also told us he has contacted Xerox several times by phone and finally by letter asking them to send down a technician to help identify the equipment items he is unable to identify; however, Xerox has of yet not sent anyone to Quick Copy to assist with the identifications of equipment.

During our examination, we learned four items reflected on Purchasing's equipment listing as being transferred to Prison Industries had been transferred to WV Celebration 2000 on long-term loan prior to the transfer of Quick Copy in November 1999. Prison Industries has no access to these items which were included among the equipment Prison Industries should have received. These four items with a total value of \$85,377.00 are reflected in the following table:

<u>Description of Item</u>	<u>Serial #</u>	<u>Model #</u>	<u>Acquisition Date</u>	<u>Original Value</u>
HP Vectra Semes4	US64052615	Unknown	01/13/97	\$ 3,098.00
IBM Thinkpad - Computer store	Unknown	760LD/L	07/01/96	8,385.00

<u>Description of Item</u>	<u>Serial #</u>	<u>Model #</u>	<u>Acquisition Date</u>	<u>Original Value</u>
Powerbook laptop computer	TY7210CN91X	Unknown	06/30/97	6,044.00
Xerox 5790 color copier	5UW075957	5790	09/01/96	<u>67,850.00</u>
Total				<u>\$85,377.00</u>

Another five items which were supposed to have been transferred to PI during August 1998 were loaned prior to this time to West Virginia University Institute of Technology for teaching purposes. The combined value of these equipment items amounted to \$88,435.00 and are listed in the following schedule.

<u>Description of Item</u>	<u>Serial #</u>	<u>Model #</u>	<u>Acquisition Date</u>	<u>Original Value</u>
Itek graphix 3980 offset press	Unknown	3980	12/10/92	\$27,999.00
Itek Graphix 3980 offset press	1499	3980	01/29/92	26,499.00
Itek 975 3980 Perfecting offset press	5445	3980	01/17/92	33,937.00
Itek Press	1160	3980	Unknown	Unknown
Hamada Press	Unknown	880	Unknown	<u>Unknown</u>
Total				<u>\$88,435.00</u>

Regarding the Purchasing equipment listing given to PI during the acquisition of offset/pre-press equipment in August 1998, we noted there was an additional five pieces of equipment which could not be accounted for by PI personnel. These items are listed as follows:

<u>Description of Item</u>	<u>Serial #</u>
Kodak Film Processor	K6500487
Paper Stacker	171953
Paper Stacker	581001034
Paper Stacker	181589
Paper Stacker	171619

Agency personnel told us there are several paper stackers located at both Northern Correctional Facility and Mount Olive Correctional Complex but that none of this equipment have

any serial numbers on them at all. Therefore, Agency personnel were unable to positively identify these four paper stackers.

Also, we documented 78 items of equipment reflected on the Quick Copy/Central Stockroom equipment inventory listings prepared by PI personnel during July 2000 which were not reflected on the Division of Purchasing inventory listings. These items are reflected on the following table:

<u>Description of Item</u>	<u>Serial #</u>	<u>Model #</u>	<u>Tag #</u>	<u>Amount</u>
1705 Monitor	CY6442A5X5	M3409	1221	Unknown
ACER Keyboard	K6555265792	6511	1266	Unknown
Apple Mac Monitor	WR7130XK947	Unknown	1223	Unknown
Asante 10T Hub	651D0094	Unknown	Unknown	Unknown
Brown Plate Punch	Unknown	Unknown	1237	Unknown
Caliber CPU	098254	Unknown	1256	Unknown
Challenge Paddy Wagon	4507	PW	1281	Unknown
Challenge Paddy Wagon	Unknown	Unknown	1154	Unknown
Challenge Paddy Wagon	780	PW	1155	Unknown
Challenge Paper Cutter	12901	HL	1112	Unknown
Compac Keyboard	B1399ONEPI78EG	123754-1-A	1258	Unknown
Compac Monitor	925GC25KC106	630	1259	Unknown
Compac PC	6646HVU6W747	XE21	1217	Unknown
CPF Delivery Truck	1GDG7D1B1KV509571	GMC 7000	10-003	Unknown
Cysco Systems Server	FAA0232Z0ZC	Catalyst 2900	1030	Unknown
Dell Keyboard	12710795002514	SK1000 REW	1251	Unknown
Dell Keyboard	12710819001087	SK1000REW	1261	Unknown
Dell Keyboard	3872A543	SK1000REW	1267	Unknown
Dell Monitor	59119-C3KQS28	D1266H	1260	Unknown
Dell Monitor	6674643PACA7	D10281	1252	Unknown
Dell Poweredge	Font2	2300	1181	Unknown
Eastman Kodak Color Copier	944-5446	Unknown	Unknown	\$22,855.00
HP Desk Jet	US56C120XK	580C	1253	Unknown
HP Keyboard	C3758-60201	C3758A ABA	1162	Unknown
HP Mouse	LZ1363701601	C375113	1161	Unknown
HP Tape Backup	US02899254	Unknown	1272	Unknown
Hyster Fork Truck	C138D033292	N40ER	1124	Unknown
Hyster Forklift	C2010613P	S40C-P	1105	Unknown

<u>Description of Item</u>	<u>Serial #</u>	<u>Model #</u>	<u>Tag #</u>	<u>Amount</u>
Ibico Plastic Binding Punch	11774	EP-28	1250	Unknown
IBM CPU	3178UN044	3178C	1159	Unknown
IBM Keyboard	1013323	XB6323	1080	Unknown
IBM Keyboard	3178H5034	C30	1158	Unknown
IBM Monitor	Unknown	8512-001	1255	Unknown
IBM Monitor	3178TM823	Unknown	1160	Unknown
IBM Monitor	AN08515-001	8515-21	1269	Unknown
IBM Server	23TH335	330	1070	Unknown
Iomega Jazz Drive	WIDU210BNH	Unknown	1229	Unknown
Iomega Zip Drive	0959803	Z100PZ	1219	Unknown
IRM Printer	3268-2	Unknown	1144	Unknown
Keyboard	Unknown	Unknown	1268	Unknown
Keyboard	E141979	LR67730	1225	Unknown
Keyboard	E141979	LR67730	1224	Unknown
Keytronic Keyboard	J962204199	Unknown	1257	Unknown
Lanier Fax	70720026	1110	1179	Unknown
Lexmark	Unknown	4039-16L	1254	Unknown
Lionhart Monitor	365144501	Unknown	Unknown	Unknown
Mac 8500	XB6513328FB	Q0326	1220	Unknown
Mac 9600	XB7200BQ9XJ	9600	1222	Unknown
Monitor	MEVHA703200170	HN4848F	1069	Unknown
Murphy Padding Press	796	Unknown	1282	Unknown
NEC Monitor	JC2131UMA	XE21	1218	Unknown
New Jersey Wire Stitcher	9740	9	1068	Unknown
NuArc Plate Maker	83M73-1	FT40N5	1129	Unknown
NuArc Platemaker	KNA94002	FT26V3UPNS	0068	Unknown
Okidata Fax Machine	Okifax 2300	36G04308-016818	1143	Unknown
Olyfax 600 Fax Machine	Unknown	Unknown	Unknown	Unknown
Profold Folder	SUPU737	S35K	1278	Unknown
Profold Folder	SUPU751	S35K	1277	Unknown
Profold Folder	SUPU708	S35K	1279	Unknown
RISO Graph	09936365	GR3750	0853	Unknown
Santron Monitor	A99543024176	SC428PT	1264	Unknown
Santron Monitor	A9551038084	SC428PT	1270	Unknown
Santron Monitor	A9547033820	SC428PT	1271	Unknown
Sceptre Monitor	629UD000J01520	P531	1163	Unknown
Set of Dock Plates	Unknown	Unknown	1130/1131	Unknown
Shard Copier	96652796	SF7300	Unknown	Unknown
Simplex Time Clock	X05515BG	1203	Unknown	Unknown
Stanley Bostitch Electric Stapler	M-10999	EWKS82MD	1243	Unknown
Sun Data	550-1052	SD550-16P-16	1180	Unknown

<u>Description of Item</u>	<u>Serial #</u>	<u>Model #</u>	<u>Tag #</u>	<u>Amount</u>
Sun Data	513-17-99	SD513-12P-44	1182	Unknown
Toray Rewritable CD	JE61080303	Unknown	1228	Unknown
Vectra HP CPU	4S63959339	VL 4 5/100	1156	Unknown
Xerox 920	X719009110	A	Unknown	Unknown
Xerox Docutech Finisher	W90367934	Unknown	Unknown	Unknown
Xerox Docutech Finisher	W90382806	Unknown	Unknown	Unknown
Xerox Fiery Controller for Server	B02160	XJT	1099	Unknown
Yale Battery Charger	Unknown	3YF12-680	1125	Unknown
Yale Fork Truck	S287875	RDE030G245083	1118	Unknown

Finally, we noted nine instances where the serial number of equipment items reflected on Purchasing's equipment listings did not match the serial number on the actual equipment.

<u>Equipment Item</u>	<u>Serial # Per Inv. List</u>	<u>Serial # Per Agency Personnel</u>	<u>Location of Item</u>	<u>Acquisition Cost of Item</u>
Baum Folder	JK4172	2358	Northern	\$10,000.00
Bell Atlantic Phone Network	1LV1004NBPCFSP	1LB1004NBPCFSP	Quick Copy	\$9,686.00
Borg Collator	121195	111220	Northern	\$35,000.00
Challenge Drill	24695	60303	Northern	\$12,000.00
Dell Pentium 200				
GSL	BYLOZ	A3LCGR550	Quick Copy	\$3,121.00
Universal Speed Punch	0459S0796	046S0796	Northern	\$46,560.74
Nuarc Light Table	BD-R89-002	BDA89-002	Quick Copy	Unknown
Nuarc Plate Burner	1.90E77	110M77-2	Surplus	Unknown
Nygien Paper Drill	K34973HY	K34673HY	Northern	Unknown

When we spoke with the director, he told us none of the equipment which was transferred from the Department of Administration to Prison Industries was processed through the Surplus Property Unit of the Division of Purchasing as required by State law. We believe Prison Industries is in noncompliance with Sections 4.1 and 4.7 of the Surplus Property Handbook, as amended, which state,

“4.1 The Surplus Property Unit is responsible for the disposition of All State property no longer needed by the owning agency, regardless of the acquisition cost. Even though the reportable

capitalization figure is \$1,000 for reportable equipment, property costing less than \$1,000 **must also** be retired to the Surplus Property Unit. The methods for disposing of surplus equipment are as follows:

- **Deliver Property to the Surplus Property Unit**
- **Request the Surplus Property Unit to Pick Up Property**
- **Request Sale-on-Site**
- **Request Vendor Trade-in**
- **Sell for Scrap**
- **Send to Landfill**

4.7 **Property/Equipment Transfer:** The transfer of equipment/property to another agency without the approval of the Surplus Property Unit is **PROHIBITED** and must be disposed of by the Surplus Property Unit.”

We further believe Prison Industries is in noncompliance with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, which states in part:

“The head of each agency shall:

. . . (b) Make an 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 agencies activities. . .”

When Prison Industries took over Off Set and Pre-Press in August 1998, some of the equipment that was supposed to have been transferred to Prison Industries never got transferred. The same situation occurred again when Prison Industries acquired Quick Copy/Central Stockroom in November 1999. Prison Industries never received an accurate inventory listing of the equipment items they received. Agency personnel also explained to us that representatives from the Division of Purchasing and Prison Industries never conducted a walk-through of the CPF facilities prior to the transfers in order to compile a complete and accurate listing of equipment to be transferred.

We recommend Prison Industries comply with Sections 4.1 and 4.7 of the Surplus Property Handbook, as amended. We also recommend that the Agency comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended. We further recommend an accurate inventory be taken and an attempt be made to account for all items.

**Agency's Response**

***Issue 1 - Offset Print Operations (1<sup>st</sup> Transfer)***

***We concur with this audit finding.***

***The transfer occurred very rapidly. It was the intent of the Department of Administration in 1998 to transfer only the offset printing to WVPI. They intended to keep their Quick Copy operations.***

***The first transfer occurred within weeks after the Memorandum of Understanding was signed by the Director of Purchasing and the Commissioner of Corrections. This Memorandum of Understanding was signed on July 21, 1998, and was to take effect July 31, 1998. Please note that the equipment inventory was not to be transferred until August 16, 1998. The equipment inventory was revised on August 28, 1998.***

***We were under the belief that the equipment was transferred in accordance with Code.***

***This inventory included equipment on long term loan. We attempted to retrieve this equipment, but were unsuccessful. We even appealed to the Commissioner's Office.***

***Issue 2 - Quick Copy Operations (2<sup>nd</sup> Transfer)***

***We concur with this audit finding.***

***One year after the transfer of the offset printing, we were notified unexpectedly of the transfer of the Quick Copy Center. This occurred in 1999.***

*We made sure this Memorandum of Understanding placed the transfer of equipment under the direct Supervision of Surplus Property. It should be noted that to the best of my knowledge this Memorandum of Understanding was never officially executed due to a delay in the layoff of former CPF employees.*

*We had an extremely difficult time trying to complete this inventory because the list of inventory items did not include all the information needed (e.g. model numbers, serial numbers). We also found equipment not on the list.*

*We have entered all equipment found and indentified into the FIMS Fixed Asset System.*

**Products Sold by Prison Industries Produced  
by State Employees and not Convict Labor**

During the period August 1998 through November 1999, the Consolidated Publishing Facility (CPF) was transferred from the Division of Purchasing to Prison Industries. This transfer included the acquisition of printing facilities, equipment and personnel. However, the stated purpose of the Legislature's creation of Prison Industries was to establish various programs which would employ convict labor housed in West Virginia's correctional institutions to manufacture products to be sold to State agencies and political subdivisions. We believe this transfer of CPF State employees to Prison Industries and use of those employees rather than inmates to fill printing orders conflicts with Chapter 28, Article 5B of the West Virginia Code.

Since the merger of the CPF into Prison Industries, we noted the occurrence of the following conditions: sales revenue generated by the former CPF operations amounted to \$1,245,375.10; expenditures paid by PI to maintain these CPF operations amounted to \$440,501.19; and salaries paid to state employees (former CPF employees) who actually complete the printing orders amounted to \$282,921.29.

Chapter 28, Article 5B, Section 4 of the West Virginia Code states in part:

“On and after the effective date of this article [June 7, 1939] all offices, departments, institutions and agencies of this state which are supported in whole or in part by this state shall purchase, and all political subdivisions of this state may purchase, from the state commissioner of public institutions [commissioner of corrections] all articles or products required by such offices, departments, institutions, agencies or political subdivisions of this state **produced or manufactured by the state commissioner of public institutions [commissioner of corrections] by convict labor**, as provided for by this article, and no such article or product shall be purchased by any such office, department, institution, or agency, from any other source, unless excepted from the provisions of this section, as hereinafter provided...” (Emphasis added).

By utilizing State employees rather than inmates to manufacture goods sold to other State agencies and political subdivisions, Prison Industries is failing to provide rehabilitation through job training to inmates and is incurring more production costs than necessary. The PI director told us he began hiring inmates from Charleston Work Release Center to work in these CPF operations effective June 1, 2000.

We recommend that the Agency comply with Chapter 28, Article 5B, Section 4 of the West Virginia Code.

*Agency's Response*

*We concur with this finding.*

*When the Memorandum of Understanding for Quick Copy was being drafted we had language inserted that we did not want the transfer of these employees. The second Memorandum of Understanding was not signed to my knowledge. We were instructed to transfer the employees. We have employed six inmates at this site. Our intention is to replace employees with inmates through attrition.*

## **Accounts Receivable**

At June 30, 2000, the Agency's Peachtree aged receivables report reflected an outstanding accounts receivable balance of \$1,385,091.93 comprised of 461 individual customer accounts. In an attempt to verify the accuracy of this balance, we mailed out accounts receivable confirmations to 97 customers whose individual accounts represented \$993,734.13 of the aforementioned balance. The returned confirmations by these customers revealed the outstanding balance of these 97 customer accounts at June 30, 2000 to be \$771,334.12. As a result of the confirmation process, we found that \$222,400.01 of the Agency's accounts receivable are in dispute.

We believe Prison Industries is in noncompliance with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, as amended, which 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...."

The disputed accounts receivable balance caused by weak internal controls results in an increased workload for Agency personnel who must spend additional time contacting customers to ascertain the status of unpaid invoices as reflected on the Agency's Peachtree aged receivables report. More importantly the large amount of disputed receivables distorts the financial position of Prison Industries.

During the examination period, Prison Industries utilized Peachtree Accounting software to account for accounts receivable transactions. At the end of fiscal year 1999, this computer system crashed while Agency personnel were closing out fiscal year transactions. The system crash

resulted in the erasure of approximately six months of payment postings from January through June 1999. The data loss further resulted in a severely overstated accounts receivable balance. Agency personnel told us an effort was made to go back and repost the customer payments which were lost. However, our confirmation process indicated that the Agency's outstanding accounts receivable balance at June 30, 2000 was in dispute.

Another factor contributing to the Agency's disputed receivables was related to the timely posting of IGT payments to the Agency's Peachtree system. Customers who purchase products from Prison Industries can make payment in one of three ways. Payment may be made by check, by State purchasing card, or by IGT. During our examination, the accounts receivable clerk told us that sometimes the Department of Administration does not send her the appropriate FIMS reports in a timely manner which indicate which outstanding invoices have been paid by IGT. Thus, if she does not receive these reports, then some customer payments made by IGT may not get posted in a timely manner. In summary, we believe the Agency not having an effective system of internal controls over the accounts receivable function significantly contributed to the large amount of disputed accounts receivable.

We recommend Prison Industries comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, as amended. We also recommend Prison Industries review their records to arrive at a more accurate accounts receivable balance and adjust the allowance for uncollectible accounts to reflect the disputed amount.

**Agency's Response**

***We concur with this finding.***

***One of the reasons we requested an Audit was because of the exceptionally high Accounts Receivables. Past history has indicated that our receivables averaged approximately***

*\$500,000.00 per month. We believe the \$771,334.12 determined through this audit is closer to actual receivables. The difference between the historical \$500,000.00 and the \$771,334.12 is the additional receivables brought about by transfer of the CPF Printing Facilities.*

*We have implemented internal controls within the Business Office to check on a daily basis the FIMS system to obtain any payments made via IGT. Once this list is pulled from FIMS, the payments are posted on the receivables system. The Aged Receivables report is reviewed monthly by the Business Manager.*

**Payment for Additional Security  
at Huttonsville Correctional Center**

During the period July 1, 1997 through June 30, 2000, we noted seven employees classified as temporary correctional officers were placed on the Agency's payroll at various times. These employees were stationed at Huttonsville Correctional Center (usually during the summers) to provide security for work crews. The total gross salaries paid to these employees during the examination period amounted to \$41,545.98. An official with the DOC Central Office told us that due to the quarterly general revenue allotment and the additional drain the salaries of these officers would place on their budget, the officers were placed on Prison Industries' payroll since the agency is funded by a special revenue account. She explained Huttonsville Correctional Center was to reimburse Prison Industries for the correctional officers' salaries. Upon examination of the FIMS Crystal Reports, we found \$12,450.08 of the \$41,545.98 expended on officers' salaries had been reimbursed by HCC to Prison Industries' special revenue account. The DOC official explained the remaining amount was not reimbursed as the result of a possible oversight.

Also, Prison Industries paid an additional \$63,000.00 to Huttonsville Correctional Center (HCC) in July 1997 as reimbursement for three full-time correctional officers who were to

provide security for the Prison Industries shops during fiscal year 1997. However, Agency personnel told us that correctional officers were not stationed in the Prison Industries facilities at HCC during this period or subsequent periods. However, the central office official stated the amount paid to HCC was to help offset the additional security expense caused by Prison Industries expanding their shift operations and HCC increasing its outside work crew assignments. Based on information made available to us, the purpose of these expenditures was to financially assist other correctional units within the Division of Corrections and not to satisfy any debt incurred by Prison Industries.

Thus, we believe Prison Industries paid a total of \$104,545.98 on behalf of Huttonsville Correctional Center without receiving benefit of these expenditures. By incurring these expenditures, PI helped to subsidize the operation of HCC. We further believe Prison Industries is in noncompliance with Chapter 28, Article 5B, Section 14 of the West Virginia Code, as amended, which states in part,

“All moneys collected by the commissioner of the division of corrections from the sale or disposition of articles and products manufactured or produced by convict labor in accordance with the provisions of this article, shall forthwith be deposited with the state treasurer to be there kept and maintained as a special revolving account designated the “prison industries account” and such moneys so collected and deposited shall be used solely for the purchase of manufacturing supplies, equipment, machinery and materials used to carry out the purposes of this article, as well as for the payment of the necessary personnel in charge thereof and to otherwise defray the necessary expenses incident thereto, all of which are under the direction and subject to the approval of the commissioner...”

Prison Industries spent funds for employee services from which they received no direct benefit. The director of Prison Industries could not provide us with a reasonable explanation regarding the seven correctional officers placed on the Agency’s payroll as temporary employees of Prison Industries during the examination period.

We recommend Prison Industries comply with Chapter 28, Article 5B, Section 14 of the West Virginia Code, as amended.

**Agency's Response**

*We concur with this finding, however, the intent was to reimburse the full amount of the temporary officers' salaries. We provide security coverage, at the expense of institutional budgeted appropriations, for Prison Industries locations throughout or agency. It is a cost associated with their operations and during the particular time period questioned, we requested assistance. The Directors of Prison Industries and Administration agreed to this. We have ceased this practice.*

**Duplicate Payments**

During the period July 1, 1997 through June 30, 1998, we noted Prison Industries made 43 duplicate payments totaling \$12,198.20 of previously paid invoices. The following table details these duplicate payments:

<b><u>FIMS Doc. #</u></b>	<b><u>FIMS Doc. Date</u></b>	<b><u>Vendor</u></b>	<b><u>Amount Paid</u></b>	<b><u>Invoice No.</u></b>	<b><u>Purpose of Expenditure</u></b>
I3385846	8/10/98	Airmark Corporation	\$ 17.00	98008466	Ink Ribbons
I3354007	7/23/98	Cardello Electric Supply Co.	72.89	100076	Printing Supplies
I3248100	5/26/98	Correctional Products & Services	1,223.85	9807	Manufacturing Supplies
I2962202	11/20/97	Dick Blick Company	139.27	38615282	Trimming Boards
I3374809	8/05/98	Douglass Industries, Inc.	67.95	182493	Seating Supplies
I3374812	8/05/98	Douglass Industries, Inc.	436.70	182490	Seating Supplies
I3226991	5/14/98	Genuine Parts Company of WV	13.05	004-059440	Paint/Degreaser
I3186212	4/15/98	Global Computer Supplies	33.38	38016192	Computer Supplies

<u>FIMS Doc. #</u>	<u>FIMS Doc. Date</u>	<u>Vendor</u>	<u>Amount Paid</u>	<u>Invoice No.</u>	<u>Purpose of Expenditure</u>
I3566166	12/21/98	Global Computer Supplies	47.23	48159076	Waste Can
I3566516	12/23/98	Global Computer Supplies	898.65	48160024	Flammable Cabinet
I3668362	3/03/99	Heidelberg USA, Inc.	319.68	45685 921	Shear Pin/Safety Bolt
I3691859	3/22/99	Jefferds Corporation	77.59	23812701	Foam Roll
I3469433	10/07/98	John R. Wald Company, Inc.	45.00	33694	Lacing Pin
I3668498	3/03/99	JSI Sign Systems Division	485.00	069849	Manuf. Supplies
I2872082	9/19/97	Kennedy Hardware Co., Inc.	251.50	584591	Refinishing Supp.
I2956014	11/12/97	Kennedy Hardware Co., Inc.	163.40	587906	Refinishing Supp.
I3096645	2/19/98	Kennedy Hardware Co., Inc.	1.45	608759	Spring Lock
I3933049	8/30/99	Kensol Franklin, Inc.	505.09	8325106	Manuf. Supplies
I3033959	1/13/98	Kensol Olsenmark Corporation	319.00	2045383	Cam Shaft Head
I3033955	1/13/98	Kensol Olsenmark Corporation	212.05	2045190	Manuf. Supplies
I2821923	8/25/97	Lowe's Home Centers, Inc.	1,301.66	77657	Manuf. Supplies
I3061053	1/30/98	Lowe's Home Centers, Inc.	78.82	31134	Seating Supplies
I3061043	1/30/98	Lowe's Home Centers, Inc.	232.94	31135	Upholstery Supp.
I3793972	5/27/99	Lowe's Home Centers, Inc.	124.53	29843	Upholstery Supp.
I3058651	1/27/98	Mabscott Supply Company	14.20	391032	Aerosol
I3374980	8/05/98	McMaster Carr Supply Co.	93.74	1261063	Ventilator

<u>FIMS Doc. #</u>	<u>FIMS Doc. Date</u>	<u>Vendor</u>	<u>Amount Paid</u>	<u>Invoice No.</u>	<u>Purpose of Expenditure</u>
I3374985	8/05/98	McMaster Carr Supply Co.	91.71	1261064	Manuf. Supplies
I3566599	12/21/98	Mountain States Airgas	42.00	2520546	Anti Spatter Spray
I3437003	9/17/98	Outwater Plastic Industries, Inc.	491.52	2181383	Manuf. Supplies
I3794069	5/27/99	Pacific Interconnections	28.80	30259	Print Cable
I3826784	6/16/99	Parts Now	71.26	INV00353478	Printing Supplies
I3020095	12/30/97	Quill Corporation	122.85	4624330	Office Supplies
I3020092	12/30/97	Quill Corporation	26.47	5030903	Office Supplies
I3487314	11/09/98	Sherwin Williams Co.	236.97	3035-4	Refinishing Supp.
I3176520	4/06/98	Sign Supply of Kentucky	286.00	6170	Paint Mask
I3756267	5/10/99	Singer Industrial Products Co.	18.39	9911782001	Sewing Supplies
I3756282	5/10/99	Singer Industrial Products Co.	2,604.98	MS19530001	Sewing Supplies
I3576955	12/29/98	State Electric Supply Co., Inc.	187.35	983296674	Manufacturing Supplies
I3787012	5/26/99	Tiger Direct, Inc.	234.99	P12997750101	Manufacturing Supplies
I3550812	12/09/98	United Parcel Service	104.47	00009858X2-428	Parcel Service
I3550809	12/09/98	United Parcel Service	65.58	00009858X2-418	Parcel Service
I3550811	12/09/98	United Parcel Service	59.24	00009858X2-438	Parcel Service
I3669032	3/03/99	Warwood Armature Repair Co.	<u>350.00</u>	H8415	Equipment Repairs
<b>TOTAL DUPLICATED PAYMENTS</b>			<b><u>\$12,198.20</u></b>		

In addition to the duplicate payment of \$236.97 paid to Sherwin Williams, Prison Industries paid \$13.41 in State sales tax as part of the \$236.97 initially paid to Sherwin Williams.

During our review of the Agency's deposit records, we found where 14 of the 43 overpayments as reflected above totaling \$2,649.31 had been refunded by the various vendors back to the Agency. The business manager told us these duplicate payments had been detected by the different vendors and subsequently refunded.

Also, during our examination of inmate payroll transactions, we noted Prison Industries made two duplicate payments. There was one instance where Prison Industries paid Pruntytown Correctional Center twice for inmate payroll for the month of July 1997. The first payment totaling \$973.30 was paid by FIMS document number E236604 on August 21, 1997. The second payment of \$973.30 was paid by FIMS document number E275561 on June 12, 1998. There was also one instance where Prison Industries paid Mount Olive Correctional Complex twice for inmate payroll for the month of May 1998. The first payment totaling \$13,428.84 was paid by FIMS document number I3273804 on June 2, 1998. This payment was not received by MOCC, therefore the PI plant superintendent at MOCC resubmitted the May 1998 inmate payroll to Prison Industries for payment. Prison Industries personnel processed the second payroll totaling \$13,428.84 on FIMS document number I3385975 on August 7, 1998. This payment was received and processed by MOCC. While reviewing inmate payroll expenditures, we noted this duplicate payment and brought it to the Agency's attention. An official with the DOC Central Office contacted the Division of Unclaimed Property of the State Treasurer's Office. He requested reimbursement for the first payment that was never processed. After the Treasurer's Office discovered the first payment to be stale dated, the funds totaling \$13,428.84 were redeposited into Prison Industries account on March 21, 2000.

We believe these duplicate payments are in noncompliance with Chapter 28, Article 5B, Section 14 of the West Virginia Code, as amended, which states in part,

“All moneys collected by the commissioner of the division of corrections from the sale or disposition of articles and products manufactured or produced by convict labor in accordance with the provisions of this article, shall be forthwith deposited with the state treasurer to be there kept and maintained as a special revolving account designated the “prison industries account” and such moneys so collected and deposited shall be used solely for the purchase of manufacturing supplies, equipment, machinery and materials used to carry out the purposes of this article, as well as for the payment of the necessary personnel in charge thereof and to otherwise defray the necessary expenses incident thereto, all of which are under the direction and subject to the approval of the commissioner:...”

In addition, Chapter 11, Article 15, Section 9 of the West Virginia Code, as amended, discusses in part exemptions from paying the State sales tax as follows:

“...The following sales of tangible personal property and/or services are exempt as provided in this subsection:...

...(3) Sales of property or services to this state, its institutions or subdivisions, governmental units, institutions or subdivisions of other states....”

By making duplicate payments on invoices already paid, Prison Industries loses the use of monies necessary to fund the day-to-day business of their manufacturing operations. Upon informing the director of these duplicate payments, he stated he would have Agency personnel review their records and contact the necessary vendors concerning reimbursement for any duplicate payments.

During the time period when these duplicate payments occurred, Prison Industries employed one person who performed both the accounts receivable and payable functions. Thus, several duplicate payments resulted due to this employee’s excessive workload. The business manager told us

with the recent addition of an employee to strictly handle accounts payable and the implementation of a new computerized accounting system that duplicate payments should become more easily detected and avoided in the future.

We recommend Prison Industries comply with Chapter 28, Article 5B, Section 14 of the West Virginia Code, as amended, as well as Chapter 11, Article 15, Section 9 of the West Virginia Code, as amended. We further recommend Prison Industries collect any amounts overpaid.

**Agency's Response**

*We concur with this finding.*

*With the implementation of PT2000 and enhancements to the FIMS payment system, duplicate payments are no longer processed. WVPI will seek reimbursement from vendors that received duplicate payments.*

**Purchasing Procedures Not Followed**

During our audit, we noted several purchases were not in compliance with the Agency Purchasing Manual promulgated by the Division of Purchasing. We found instances of purchases being split into several transactions in order to keep them below the threshold requiring bidding through the Purchasing Division, written bids not being obtained when required, verbal bids not being obtained when required, proper documentation not being maintained for sole source purchases and purchase orders were not on file for all purchases.

Three pieces of equipment were purchased within a 27 day period for the sign shop at Mount Olive Correctional Center at a total cost of \$23,894.00. These purchases were made in response to a memo, from the Prison Industry plant superintendent at Mount Olive Correctional Center, which stated the three items were necessary to upgrade the sign shop to accommodate additional DOH sign

business. The three items, each costing less than \$10,000 were purchased by Prison Industries after they obtained one written bid and two catalog prices for each item.

We noted seven purchases totaling approximately \$49,500 which were each for an amount requiring three written bids but no written bids could be found. These seven items ranged in purchase price from \$5,121.50 to \$9,950.00. With one exception these purchases were equipment items for the various Prison Industry shops. One purchase was for rental of a truck.

We noted three purchases of equipment ranging in amount from \$1,500.00 to \$3,118.50 and totaling \$6,433.50 for which no bids were obtained even though each purchase required three verbal bids. We also noted five transactions treated as sole search purchases which did not have the required documentation for sole source purchases. In only one instance was the required written quotation on file and none of the transactions had an agency purchase order or written justification of the purchase on file.

Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, which 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...”

In conjunction with this statute, Prison Industries was in noncompliance with the following sections of the Agency Purchasing Manual promulgated by the Division of Purchasing which state in part:

**“6.1.2                    \$1,001 to \$5,000: A minimum of three (3) verbal bids shall be obtained when possible. Document and record all bids for public record...”**

**6.1.3**                **\$5,001 to \$10,000:** A minimum of three (3) **written** bids shall be obtained....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..

**6.4.2**                **Direct Purchases under \$10,000:** If an item is unique and possesses specific characteristics that are available from only one source, an *Agency Purchase Order* must be completed.

In a direct purchase situation, competition is not available - the products or services are only available from one source...**Written justification must be provided with the *Direct Purchase Order*...A written, signed quotation** from the sole source vendor must also be obtained. A specific description, terms, FOB point of shipment, and price must be included in the signed quotation. *(A quotation may also be accepted on the vendor’s letterhead).*”

The effect of Prison Industries not maintaining the proper documentation may lead to vendors being under or overpaid for products or services provided. Also, we believe Prison Industries not competitively bidding purchases in accordance with State purchasing regulations may result in PI paying more for materials or equipment than is necessary.

Prison Industries does not have adequate procedures in place to insure compliance with all applicable rules and regulations before purchases are made. There is no review of purchases by supervisory staff prior to or after the actual purchase

We recommend West Virginia Prison Industries comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended. In addition, we recommend Prison Industries comply with the Division of Purchasing’s Agency Purchasing Manual.

**Agency's Response**

***We concur with this finding.***

***Internal controls have been implemented within WVPI to eliminate these findings.***

***Additional training of our staff on purchasing guidelines has been accomplished. All employees have been instructed that copies of any and all bids must be submitted to this office with the invoice for payment. All original bids are kept and maintained in the respective shop.***

**Payment of Various Correctional Facilities'  
Inmate Payrolls by Prison Industries**

During the period July 1, 1997 through June 30, 2000, we noted 266 instances totaling \$470,824.53 where Prison Industries had paid the May/June inmate payrolls of other correctional facilities at the end of each fiscal year. None of these payrolls represented wages owed to Prison Industries inmates. With the start of each new fiscal year, Prison Industries' special revenue account would be reimbursed by these other correctional facilities. Of the \$470,824.53 expended during the examination period, we noted \$469,752.53 of this amount was reimbursed to Prison Industries. The correctional facilities for which Prison Industries pays the May/June inmate payrolls at the end of each fiscal year usually include Beckley Correctional Center, Charleston Work Release Center, Denmark Correctional Center, Huntington Work Release Center, Huttonsville Correctional Center, Northern Correctional Facility, Pruntytown Correctional Center, and St. Mary's Correctional Center. The payment/reimbursement of these transactions is usually processed by personnel located in the DOC Central Office.

Of the \$470,824.53 expended on other institutions' inmate payrolls, we were only able to document \$216,531.09 of the total amount expended and only \$60,012.24 of the \$469,752.53 reimbursed. Agency personnel were unable to provide us with any further documentation. An employee with the DOC Central Office told the Agency's business manager that all documentation is sent to Prison Industries once a transaction is processed through the Central Office.

During our examination, we also noted six reimbursements totaling \$2,349.00 deposited to Prison Industries account which we could not match to any expenditures on behalf of other institutions. Agency personnel were unable to provide us with either the documentation supporting these reimbursements or a reasonable explanation concerning the deposit of these monies to their account. Finally, we were unable to trace portions of two legitimate Prison Industries inmate payrolls from the FIMS payment document to a monthly payroll report. For the months of January and March 1999, we were only able to trace \$39,107.57 of \$46,596.85 paid to inmates employed by the Prison Industries facility at MOCC to monthly reports because these monthly expenditures were not fully documented.

West Virginia Prison Industries is in noncompliance with Chapter 28, Section 5B, Article 14 of the West Virginia Code, as amended, which states in part,

“All moneys collected by the commissioner of the division of corrections from the sale or disposition of articles and products manufactured or produced by convict labor in accordance with the provisions of this article, shall forthwith be deposited with the state treasurer to be there kept and maintained as a special revolving account designated the “prison industries account” and such moneys so collected and deposited shall be used solely for the purchase of manufacturing supplies, equipment, machinery and materials used to carry out the purposes of this article, as well as for the payment of the necessary personnel in charge thereof and to otherwise defray the necessary expenses incident thereto, all of which are under the direction and subject to the approval of the commissioner:...”

In addition, we believe Prison Industries is in noncompliance with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, as amended, which 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....”

Prison Industries funds are being used by other institutions near the end of the fiscal year and being reimbursed to Prison Industries at the beginning of the new fiscal year. This practice is not allowed according to the applicable code. If Prison Industries were to have an emergency, they may not have sufficient funds in their account to handle the emergency. This payment/reimbursement practice was implemented by DOC Central Office personnel prior to our audit period to financially assist other correctional facilities (with expiring funds at the end of each fiscal year) to help cover low priority expenditures.

We recommend West Virginia Prison Industries comply with Chapter 28, Section 5B, Article 14 of the West Virginia Code, as amended, as well as Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, as amended.

**Agency's Response**

*The Division of Corrections facilities process under the direction of the Director of Administration "outside" work crew payrolls for the month of June through the Prison Industries account, for clearing purposes only. These payrolls are not for inside crews which are covered within Corrections' budgeted appropriation. Due to the fact that Corrections must await one-two months for reimbursement from various outside agencies on their "outside" work crew payrolls, Corrections cannot afford to lose these funds as they are General Revenue appropriated. We, therefore, use the Industries account, special revenue, whereby funds are not "lost", for only the last month or two of the fiscal year. Industries is Corrections only source as a clearing account and it is subsequently reimbursed. In order to assist, the Division of Corrections, Director of Prison Industries and Administration agreed to this arrangement several years ago.*

### **Former Employee Paid for Services Not Rendered**

We noted misstated sick and annual leave accruals and balances for one employee for several months during 1999 and 2000. This employee was on leave of absence without pay at various times during the audit period; however, his leave accrual for these months was not properly prorated for the time not worked. We noted 27 instances during the period April 1999 through July 2000 where he was granted the use of sick and annual leave in advance of actually accruing said leave. As a result, he was paid for leave he did not earn. In addition, this employee was paid for services not rendered for May 2000, June 2000, and July 2000 while he was on leave of absence without pay. His last working day was May 12, 2000 and he did not return to work until July 26, 2000. During this time he continued to receive his regular pay; he was not removed from the Agency's payroll. As a result of his excessive absenteeism, he was dismissed on August 9, 2000.

These errors resulted in a cumulative overpayment of \$7,625.90 for 1999 and 2000. In an attempt to receive reimbursement for the money owed, the employee's July 31, 2000 annual increment paycheck (\$400.00) was withheld. PI is also in the process of withholding his severance check to apply it to the amount owed. The PI director told us the agency is currently in the process of taking legal action against this employee to receive reimbursement for these overpayments. Claims due the State are addressed by Chapter 14, Article 1, Section 1 of the West Virginia Code, as amended, which states:

“The auditor, commissioner of finance and administration and any other officer or body authorized by law shall cause appropriate proceedings, in the manner provided for in this article, to be instituted and prosecuted to enforce payment of any debt or liability due the State.”

These cumulative overpayments are in noncompliance with Sections 15.3(a) and 15.4(a) of the West Virginia Division of Personnel's Administrative Rule, as amended, which state in part,

**“15.3. Annual Leave**

(a) Amount, Accrual - Except as otherwise noted in this rule, each employee is entitled to annual leave with pay and benefits. The table below lists the rates of accrual according to the employee’s length of service category...

<b><u>Length of Service Category</u></b>	<b><u>Accrual Rate: Hours Equal To</u></b>
Less than 5 years of regular employment	1.25 days/month
5 years but less than 10 years of regular employment	1.50 days/month
10 years but less than 15 years of regular employment	1.75 days/month
15 years or more	2.00 days/month

**15.4. Sick Leave**

(a) Accrual - Except as otherwise provided in this rule, each employee shall receive accrued sick leave with pay and benefits. Sick leave is computed on the basis of hours equal to 1.5 days per month for full-time employees....”

The instances noted above of this employee being granted the use of his leave in advance of accruing said leave is in noncompliance with Sections 15.3(c) and 15.4(f) of the West Virginia Division of Personnel’s Administrative Rule, as amended, which state in part,

**“15.3. Annual Leave**

(c) Requesting, Granting - Accrued annual leave shall be granted at those times that will not materially affect the agency’s efficient operation or when requested under the provisions of *W.V. Code* §21-5D-1 et seq., the Parental Leave Act. The employee shall request annual leave in advance of taking the leave except as noted

elsewhere in this Subdivision. Annual leave may not be granted in advance of the employee's accrual of the leave. Agencies are encouraged to grant annual leave when hazardous conditions make going to and from work difficult.

#### 15.4. Sick Leave

(f) Granting - Sick leave may not be granted in advance of the employee's accrual of the leave....”

The cumulative overpayments for services not rendered are in noncompliance with Chapter 12, Article 3, Section 13 of the West Virginia Code, as amended, which states,

“No money shall be drawn from the treasury to pay the salary of any officer or employee before his services have been rendered.”

This employee received compensation that he was not entitled to receive. The inaccurate leave balances which lead to this employee being paid for services not rendered were the result of calculation errors on the part of the DOC's payroll section. The instances of the employee receiving full pay for pay periods in which he was on leave of absence without pay status were the result of a lack of communication between the PI director and the DOC's payroll section. The director stated that he failed to notify the payroll clerk directly that this employee was to be removed from the payroll.

We recommend West Virginia Prison Industries comply with Sections 15.3 and 15.4 of the West Virginia Division of Personnel's Administrative Rule, as amended, and with Chapter 12, Article 3, Section 13 of the West Virginia Code, as amended. In addition, we recommend West Virginia Prison Industries continue to seek reimbursement from this employee for the total amount of overpayment in accordance with Chapter 14, Article 1, Section 1 of the West Virginia Code, as amended.

#### Agency's Response

*We concur with this Audit Finding.*

*WVPI, through the Attorney General's Office, sought legal remedy against this employee.*

*The dollar amount on the Agreed Order differs from the amount in this audit. WVPI believes the amount in the Agreed Order is an agreed upon amount to settle the lawsuit. However, the Assistant Attorney General handling this case is no longer employed by the State of West Virginia and it will take some time for another lawyer to research this difference. As with most lawsuits, this was taking much of the Director's time, the lawyer's time and travel expenses. Therefore, we realized we would soon exceed the amount being sought by incurring the above described expenses and time.*

*In order for the above not to occur again, the Business Manager has been trained on payroll and personnel issues concerning leave accrual, leave without pay, etc.*

#### **Erroneous Expense to Expense Transfers**

During our testing of inmate payroll, we noted three instances in which Prison Industries did not properly reimburse Pruntytown Correctional Center (PCC) for monthly inmate wages totaling \$3,784.74 which were owed to inmates employed by Prison Industries. Inmates employed by Prison Industries at PCC are initially paid from PCC's funds. Pruntytown's business office will next invoice Prison Industries for reimbursement of the monthly wages paid to PI inmates. Pruntytown Correctional Center requires Prison Industries to pay each monthly invoice for reimbursement through an expense-to-expense transfer.

First, PCC paid for February 1999 inmate labor totaling \$1,346.01. Prison Industries attempted to reimburse PCC after being invoiced by PCC. However, the expense to expense transfer resulted in \$1,346.01 being transferred from PCC's account to Prison Industries account. Thus, Prison Industries owes PCC a total of \$2,692.02.

In the second instance, Pruntytown Correctional Center paid for August 1999 inmate labor totaling \$1,140.54 and then invoiced Prison Industries for reimbursement. Prison Industries

attempted to reimburse PCC after being invoiced by PCC. However, the expense to expense transfer resulted in \$1,140.54 being transferred from PCC's account to Prison Industries' account. Prison Industries was invoiced again by PCC for August 1999. A second expense to expense transfer was successfully completed by Prison Industries personnel resulting in \$1,140.54 being transferred from Prison Industries account to PCC. However, these transactions cancelled each other out and Prison Industries still owes PCC \$1,140.54.

In a third instance, PCC paid for September 1999 inmate labor totaling \$1,298.19. Prison Industries attempted to reimburse PCC after being invoiced by PCC. However, the expense to expense transfer resulted in \$1,298.19 being transferred from PCC's account to Prison Industries account. Thus, Prison Industries owes PCC a total of \$2,596.38.

As a result of these erroneous transfers, funds were transferred into Prison Industries' account from Pruntytown Correctional Center's account when the funds should have been transferred from Prison Industries to PCC. Thus, Prison Industries owes PCC a total of \$6,428.94 due to the improper transfer of funds via FIMS.

We believe Prison Industries is in noncompliance with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, which 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..."

In addition, we believe these erroneous transfers are in noncompliance with Chapter 28, Article 5B, Section 14 of the West Virginia Code, as amended, which states in part,

“All moneys collected by the commissioner of the division of corrections from the sale or disposition of articles and products manufactured or produced by convict labor in accordance with the provisions of this article, shall be forthwith deposited with the state treasurer to be there kept and maintained as a special revolving account designated the “prison industries account...”

The effect of these mistakes is that Prunytown Correctional Center paid for these inmate payrolls twice and did not receive proper reimbursement from Prison Industries. These mistakes were the result of clerical errors by Prison Industries personnel when processing these transaction through FIMS. Also, we believe this is a weakness in the FIMS system. FIMS did not detect these incorrect transfers made between governmental units within the same department.

We recommend the agency comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended. Also, we recommend Prison Industries reimburse Prunytown for the total amount improperly reimbursed.

**Agency's Response**

***With concur with this Audit Finding.***

***This was an oversight of processing reverse expense to expense transactions. WVPI employees have been properly trained on expense to expense processing.***

***We concur with this Audit Finding***

***We have implemented internal controls to prevent these findings from happening. Employees have received proper training. Better communication between WVPI and DOC's payroll section is occurring. All leave is prorated by the Business Manager in WVPI and reviewed and approved by DOC personnel.***

### **Incorrect Payments to Terminating Employees**

During our test of sick and annual leave we noted three instances in which employees who resigned from the Agency were improperly compensated when removed from the payroll. In the first instance, an employee transferred to Prison Industries from the Department of Administration on August 16, 1998. His last working day prior to going on a medical leave of absence without pay was September 10, 1998. The employee subsequently resigned once his medical leave of absence ended on September 28, 1999. His last day on the agency's payroll was October 15, 1999.

During our review of personal services, we noted this employee was overpaid a total of \$456.80 between September 15, 1998 and October 16, 1999. For payroll transactions involving this employee during this period, we noted he was overcompensated for services rendered for pay period ending September 15, 1998; overpaid on September 30, 1998 a lump sum payment for unused annual leave; and improperly compensated for pro-rated annual increment on July 23, 1999 and October 16, 1999. Each of these errors contributed to his total overpayment.

A second employee was overpaid a total of \$284.49. This employee had resigned his position with Prison Industries effective February 25, 2000. Upon resigning, he received a lump sum payment for his remaining annual leave along with some overtime and straight time compensation due him on March 16, 2000. However, we noted he was overpaid for the lump sum payment of annual leave since the payroll clerk did not properly prorate the amount of leave earned by him during the month of February 2000. On March 31, 2000, we noted he was paid again for the same overtime and straight time which he was previously paid on March 16, 2000. These errors contributed to his total overpayment.

Finally, we noted a third employee was overpaid a total of \$681.06. This employee resigned from Prison Industries effective October 16, 1998. He subsequently transferred to St. Mary's

Correctional Center. During our examination of the Agency's payroll records, we noted he was paid his regular salary on October 31, 1998 even though he only worked until October 15, 1998. In addition, he was overpaid overtime compensation on September 15, 1998; underpaid overtime and straight time compensation on October 16, 1998; and overpaid straight time compensation on November 30, 1998. Each of these errors contributed to his total overpayment.

We believe this is in noncompliance with Chapter 12, Article 3, Section 13 of the West Virginia Code, as amended, which states,

"No money shall be drawn from the treasury to pay the salary of any officer or employee before his services have been rendered."

The effect of Prison Industries paying for services that are not rendered is that the employee receives compensation they are not entitled to receive. The payroll clerk for Prison Industries is located at the DOC Central Office. These errors were the result of miscalculations on the part of the DOC's payroll function. We believe miscommunication between agency personnel and the DOC payroll clerk concerning the resignations of these employees was also a contributing factor to these overpayments.

We recommend West Virginia Prison Industries comply with Chapter 12, Article 3, Section 13 of the West Virginia Code, as amended.

**Agency's Response**

***We concur with this Audit Finding.***

***We have implemented internal controls to prevent these findings from happening. Employees have received proper training. Better communication between WVPI and DOC's payroll section is occurring. All leave is prorated by the Business Manager in WVPI and reviewed and approved by DOC personnel.***

**Former Employee Improperly Reimbursed for Travel Expenditures**

During our examination of travel expenditures, we noted a former PI sales representative was improperly reimbursed a total of \$631.28 for travel expenses claimed over the period June 1998 through January 1999. We documented several factors which contributed to this employee's over reimbursement of travel expenses. These included 27 instances of the employee claiming unreasonable mileage between driving destinations; one instance of the employee being paid twice for the exact same travel expenses; and two instances of the employee claiming travel expenses when she was on sick or annual leave status. The 27 instances where this employee claimed excessive mileage are detailed in the following table:

<u>Travel Date</u>	<u>From/To</u>	<u>Miles Claimed</u>	<u>Recalculated Mileage</u>	<u>Difference</u>	<u>Amount Overpaid</u>
06/02/98	Fairmont/Beckley	260	198	62	\$ 19.84
06/03/98	Beckley/Fairmont	260	198	62	19.84
06/10/98	Fairmont/Wheeling	145	92	53	16.96
06/11/98	Wheeling/Fairmont	145	92	53	16.96
08/17/98	Fairmont/Wheeling	140	92	48	15.36
08/18/98	Wheeling/Fairmont	140	92	48	15.36
09/21/98	Fairmont>Weirton	180	119	61	19.52
09/21/98	Weirton/Fairmont	180	119	61	19.52
09/28/98	Fairmont>Weirton	180	119	61	19.52
09/28/98	Weirton/Fairmont	180	119	61	19.52
10/07/98	Fairmont/Wheeling	145	92	53	16.96
10/07/98	Wheeling/Fairmont	145	92	53	16.96
10/08/98	Fairmont/Wheeling	145	92	53	16.96

<u>Travel Date</u>	<u>From/To</u>	<u>Miles Claimed</u>	<u>Recalculated Mileage</u>	<u>Difference</u>	<u>Amount Overpaid</u>
10/08/98	Wheeling/Fairmont	145	92	53	16.96
10/27/98	Bridgeport/Wheeling	145	99	46	14.72
10/27/98	Wheeling/Bridgeport	145	99	46	14.72
10/28/98	Bridgeport/Wheeling	145	99	46	14.72
10/28/98	Wheeling/Bridgeport	145	99	46	14.72
11/25/98	Bridgeport/French Creek	125	38	87	27.84
11/25/98	French Creek/Buckhannon	55	11	44	14.08
12/02/98	Grafton/Phillipi	40	15	25	8.00
12/03/98	Bridgeport/Wheeling	145	99	46	14.72
12/03/98	Wheeling/Bridgeport	145	99	46	14.72
12/09/98	Bridgeport/Canaan Valley	145	90	55	17.60
12/11/98	Canaan Valley/Bridgeport	145	90	55	17.60
01/19/99	Clarksburg/Wheeling	155	110	45	12.85
01/19/99	Wheeling/Clarksburg	155	110	45	<u>12.85</u>
	Total	<u>4,080</u>	<u>2,666</u>	<u>1,414</u>	<u>\$450.66</u>

In addition, we noted one instance where Prison Industries was direct billed by Canaan Valley Resorts, Inc. for travel expenses amounting to \$74.86 which were incurred by this same employee when she was a contract employee. These expenditures for lodging and meals were incurred during May 1998. During this time, her agreement with PI addressed travel expenses as follows, "...No travel will be reimbursed by the State and is the sole responsibility of the vendor (employee)." Under the terms of this employee contract, we believe the employee should have paid for these travel expenses and not Prison Industries.

Also, there were six instances in which the employee's travel expense form was not signed by a supervisor and one instance in which the employee's time sheet was not signed by a supervisor. In addition, no time sheet could be located for this employee for the months of January 1999, February 1999, and March 1999. She was paid a total of \$6,739.15 for these months. We also believe the travel expenditures improperly reimbursed to this employee were in noncompliance with WV Travel Regulations Section 4.2.6.1, which states in part:

“4.2.6.1           Privately owned and courtesy vehicles may be used when traveling on state business. Reimbursement will be made at the prevailing rate per mile established by the Travel Management Office, excluding normal daily commuting mileage, for actual miles traveled using the shortest practicable route to the point of arrival at the traveler's destination.”

By not adhering to the State travel regulations and properly maintaining employee time sheets and travel expense reports, employees may be over or underpaid for travel expenses incurred. Also, the effect of Prison Industries paying sales commissions to sales representatives without maintaining the appropriate documentation to substantiate sales made by said employees may lead to said employees being paid commissions which they are not entitled to receive.

We believe the aforementioned instances of noncompliance with the West Virginia Travel Rules, inadequate documentation supporting time worked, and inadequate documentation substantiating sales made by employees were the result of inadequate supervisory review of said employees travel expense forms, time sheets, and sales documentation prior to payment.

We recommend Prison Industries comply with the West Virginia Travel Regulations when approving employee travel expenses for payment.

Agency's Response

*We concur with this Audit Finding.*

*It should be noted that the former PI Sales Representative submitted some travel reimbursement forms through our administrative offices and some travel reimbursement forms through a former Commissioner, making it difficult to accurately account for travel expenses. However, it should also be noted that often times a Sales Rep will contact more than one customer while in a certain location. For example (hypothetical case) one might contact DHHR in the area of Morgantown and possibly DMV or DEP or WVU while at this same location. We have advised Sales Reps to state the location and vicinity under this circumstance. Reps are to keep a sales log on contacts.*

*This same employee did charge a room to Canaan Valley. We were unaware of this prohibition due to the fact that the contract was executed in the Commissioner's Office and not by our office.*

*We were advised by this Sales Rep that during the three months in which no timesheets could be found that she was with the Commissioner and he knew where she was.*

*This Sales Rep resigned in March, 2000.*

No Documentation For Sales Commissions Paid

An employee received sales commissions totaling \$1,831.82 on various sales transactions for the last two quarters of calendar year 1998. The commissions on the individual sales transactions for which this employee was credited with were not properly documented. The Agency could not provide us with customer purchase orders originating each sales transaction for which this employee received a sales commission.

We believe Prison Industries is in noncompliance with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, which 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...”

We recommend West Virginia Prison Industries comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended.

**Agency’s Response**

***We concur with this Audit Finding.***

***The Director of WVPI has a disagreement with this Sales Rep concerning the amount of commission earned. The Director was subsequently called to the former Commissioner’s Office and ordered to pay the amount found during the audit.***

***Since this occurrence, we have purchased laptop computers and keep hard copies of the purchase orders relating to Sales. A computerized report is submitted to the Director for review after the Sales Rep certifies to the authenticity of the report. The Director approves the report and submits it to the Business Office for processing.***

## INDEPENDENT AUDITORS' OPINION

The Joint Committee on Government and Finance:

We have audited the statement of cash receipts, disbursements and changes in cash balance of West Virginia Prison Industries for the years ended June 30, 2000 and June 30, 1999. The financial statement is the responsibility of the management of West Virginia Prison Industries. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 that our audit provides a reasonable basis for our opinion.

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

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues collected and expenses paid of West Virginia Prison Industries for the years ended June 30, 2000 and June 30, 1999, on the bases 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 the purpose 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 in all material respects in relation to the basic financial statement taken as a whole.

Respectfully submitted,

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

October 2, 2000

Auditors: Michael A. House, CPA, Supervisor  
Neil M. McEachron, Jr., CPA, Auditor-in-Charge  
David L. Penix  
Amanda L. Poff  
Lori A. Fischer

**WEST VIRGINIA PRISON INDUSTRIES**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS**  
**AND CHANGES IN CASH BALANCE**  
**SPECIAL REVENUE**

	<u>Year Ended June 30,</u>	
	<u>2000</u>	<u>1999</u>
Cash Receipts:		
Sales	\$6,441,562.37	\$5,597,109.92
Disbursements:		
Personal Services	1,578,630.97	1,326,228.00
Employee Benefits	456,365.74	312,756.46
Current Expenses	3,581,165.86	3,644,373.12
Repairs and Alterations	61,090.87	21,865.23
Equipment	404,378.44	54,964.06
Other Extraordinary Disbursements	<u>16,915.99</u>	<u>5,973.20</u>
Total Disbursements	<u>6,098,547.87</u>	<u>5,366,160.07</u>
Cash Receipts Over Disbursements	343,014.50	230,949.85
Beginning Balance	<u>934,358.94</u>	<u>703,409.09</u>
Ending Balance	<u>\$1,277,373.44</u>	<u>\$ 934,358.94</u>

*See Notes to Financial Statement*

## WEST VIRGINIA PRISON INDUSTRIES

### NOTES TO FINANCIAL STATEMENT

#### Note A - Accounting Policy

Accounting Method: The cash basis of accounting was followed for the Special Revenue Fund. 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.

#### Note B - Pension Plan

All eligible employees are members of the West Virginia Public Employees' Retirement System. Employees' contributions are 4.5% of their annual compensation and employees have vested rights under certain circumstances. West Virginia Prison Industries matches contributions at 9.5% of the compensation on which the employees made contributions.

West Virginia Prison Industries' pension expenditures were as follows:

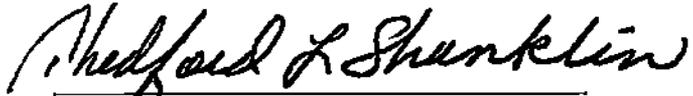
	<u>Year Ended June 30,</u>	
	<u>2000</u>	<u>1999</u>
Special Revenue	<u>\$117,015.16</u>	<u>\$80,795.35</u>

**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 7<sup>th</sup> day of January 2002.

  
\_\_\_\_\_  
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 West Virginia Prison Industries; Governor; Attorney General; and, State Auditor.