STATE OF
NORTH CAROLINA

FISCAL CONTROL AUDIT REPORT ON

DEPARTMENT OF CORRECTION

RALEIGH, NORTH CAROLINA

FOR THE PERIOD JULY 1, 2004, THROUGH JANUARY 31, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

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THEODIS BECK

SECRETARY OF THE DEPARTMENT OF CORRECTION

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Mr. Theodis Beck, Secretary,
Department of Correction

This report presents the results of our fiscal control audit of the Department of Correction for the period July 1, 2004, through January 31, 2005. Our work was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The objective of a fiscal control audit is to gather and evaluate evidence about internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources.

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*. These items are described in the Audit Findings and Recommendations section of this report. We also noted certain matters that we reported to management of the Department of Correction in a separate letter dated August 24, 2005.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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BACKGROUND INFORMATION

The Department of Correction is one of the largest agencies in state government. With over 19,000 employees, the Department is responsible for the custody, supervision and care of individuals sentenced after the conviction of a felony or serious misdemeanor. The Secretary of the Department, Mr. Theodis Beck, oversees the Department's operations and an annual budget of $1 billion. The major divisions of the Department include the Division of Prisons, the Division of Community Corrections, and Correction Enterprises.

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OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS

OBJECTIVES

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes* and in accordance with the standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we have conducted a fiscal control audit at the Department of Correction.

The objective of a fiscal control audit is to gather and evaluate evidence about internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources. Our audit does not provide a basis for issuing an opinion on internal control, and consequently, we have not issued such an opinion.

Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

SCOPE

Our audit scope covered the period July 1, 2004, through January 31, 2005, and included selected internal controls in the following organizational units:

<u>Division of Administration – Controller's Office</u>

This organizational unit is responsible for the general accounting functions of the Department. The unit accounts for and issues financial reports covering all Department operations.

<u>Division of Prisons</u>

This Division houses, clothes, and feeds approximately 37,000 inmates incarcerated in 78 prisons located throughout the State.

<u>Division of Community Corrections</u>

The Division of Community Corrections supervises offenders released into the community, either probationers whose active sentences have been suspended, or parolees and post release offenders who have served a prison sentence and are being reintegrated into the community. The Division supervises approximately 115,000 probationers and more than 2,600 parolees and post-release offenders.

Correction Enterprises

Correction Enterprises operates the State's prison industries. More than 2,200 inmates work in jobs ranging from manufacturing to farming. The Division's plants manufacture license plates, highway signs, paint and janitorial products. Inmates work in printing, duplicating, sewing, and woodworking jobs. There are also farms, laundries, a cannery, a meat processing plant, and an optical plant.

During our audit, we considered internal control related to the following accounts and control objectives:

Sales and Services – These are revenues of the Correction Enterprise Division. At January 31, 2005, Correction Enterprises reported a total of $49 million dollars in vendor sales. We examined internal control designed to ensure that the Department properly accounts for and reports these revenues.

Miscellaneous Revenues – These revenues are mostly commissions earned from the use of phones in the prisons. We examined internal control designed to ensure that the Department properly accounts for and reports these revenues.

Contract Employees – These expenditures are for the payment of contract employees hired by the Department. We examined internal control designed to ensure that the Department properly paid these employees based on the terms of their employment contracts.

Inmate Labor – These expenditures are for the payment of wages to inmates. We examined internal control designed to ensure that hours worked were properly documented and approved.

Purchased Services – These expenditures are for the purchase of services from vendors outside of state government. We audited nine different accounts dealing with the purchase of medical services for inmates. We also audited the miscellaneous contractual expenditures account. We examined internal control designed to ensure the Department properly accounts for and reports these expenditures.

Purchase of Supplies and Materials – These expenditures are for the purchase of supplies and materials needed to run the prison system on a daily basis. We audited the purchase of inmate uniforms and the bulk purchase of prescription drugs by the Division of Prisons. We examined internal control designed to ensure the Department properly accounts for and reports these expenditures.

Travel Expenditures – These expenditures are for the payment of lodging and meals while employees are in a travel status. We examined internal control designed to ensure the Department properly accounts for and reports these expenditures and that the travel complies with the regulations outlined in the State Budget Manual.

Cellular Phone Service – These expenditures are for the payment of cellular phone services. We examined internal control designed to ensure the Department properly accounts for and reports these expenditures.

Small Purchases of Direct Raw Materials – Direct raw materials are expenditures incurred primarily by the Division of Correction Enterprises for the purchase of raw materials to be used in the production of products for sale to customers. We audited the small purchases of these raw materials for compliance with both State and Departmental small purchasing policies.

METHODOLOGY

To accomplish our audit objectives, we gained an understanding of internal control, performed tests of control effectiveness, and/or performed direct tests of the accounts and transactions as we considered necessary in the circumstances. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records and examining documentation supporting recorded transactions and balances.

RESULTS

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*. These items are described in the Audit Findings and Recommendations section of this report. We also noted certain other matters that we have reported to management in a separate letter dated August 24, 2005.

AUDIT FINDINGS AND RECOMMENDATIONS

1. PURCHASING RULES WERE CIRCUMVENTED

The Division of Correction Enterprises of the Department of Correction split purchase requisitions so as not to exceed the $5,000 threshold that would require the Division to seek competitive bids. The Division of Departmental Purchasing and Services failed to monitor or react to the improper purchase requisitioning practices of the Division of Correction Enterprises. As a result, the Division of Departmental Purchasing and Services did not detect or failed to stop numerous split purchase requests by the Division of Correction Enterprises. Splitting purchases is likely to increase costs; however, it is unknown if the failure to seek competitive bids has cost the Department additional funds. Our analysis of small purchase requisitions made by the Division of Correction Enterprises and the oversight responsibility of the Division of Departmental Purchasing and Services revealed the following:

a. The sewing, furniture, and metal products plants of the Division of Correction Enterprises were mainly responsible for splitting purchase requisitions. The following illustrates a few of the many instances noted during the audit period (July 1, 2004, through January 31, 2005) where the Division deliberately split purchase requisitions. The Division made some requisitions only minutes apart:

   1) On August 11, 2004, a plant made two requisitions for the same product for $4,310 and $4,175 within 11 minutes of each other;

   2) On August 25, 2004, a plant made two requisitions for the same product at $4,940 each within a few seconds of each other;

   3) On October 19, 2004, a plant made two requisitions for the same product for $2,805 each within 13 minutes of each other;

   4) On December 1, 2004, a plant made two requisitions for the same product for $4,512 each within 30 minutes of each other.

b. A responsibility of the Division of Departmental Purchasing and Services is to monitor and compile purchase requisitions from the Department's various sections, obtain from outside vendors the best purchase terms possible, and make the purchase. We found, however, that the purchasing practices of this Division largely echoed the split-purchase requisition habits of the Division of Correction Enterprises. Split purchases were made, many just minutes apart;

c. Different purchasing agents of the Division of Departmental Purchasing and Services often issued purchase orders for the same products, thus making monitoring of purchases for the same product difficult. For instance, on January 25, 2005, a purchasing agent issued two purchase orders and another agent issued a third purchase order for split requisitions from a plant for the same product for $4,640, $4,590 and $4,590, respectively, within nine minutes of each other. All three purchases were made from the same vendor;

d. The Department's policy for small purchases lacks proper enforcement emphasis. This policy, dated February 4, 2004, states: "Purchasing Officers and Purchasing Agents are encouraged to analyze purchasing habits of users to insure that small purchasing rules are not abused or circumvented." The policy "encourages" rather than requires purchasing officers and purchasing agents to analyze purchasing habits of users. Also, we found no documented procedures as to how purchasing agents should react in the event they encounter situations that circumvent purchasing policies.

The State of North Carolina Agency Purchasing Manual requires state agencies to engage in the competitive bid process when making purchases over $5,000. Seeking competition for small purchases (purchases of $5,000 or less) is not required.

We conducted extensive inquiries of personnel from the Division of Correction Enterprises and the Division of Departmental Purchasing and Services. The main purpose of our inquires was to determine whether the Division of Correction Enterprises intentionally circumvented state and departmental purchasing policies by splitting purchases and making frequent small purchases to avoid competition. We determined the following:

a. Management of the Division of Correction Enterprises stated it was not aware or only vaguely aware of state purchasing rules;

b. Correction Enterprises management stated that it was aware of the practice of splitting purchases, thought it was an allowable practice, and had utilized it for more than nine years. Consequently, the Division's two approval levels did not see the need to question the split requisitions;

c. Correction Enterprises management asserted that it split purchases because of business-related factors such as consistency and volatility of products, standardization and compatibility of products, inadequacy of inventory space, customer needs, and multiple plants purchasing the same products;

d. The Department operated under two different small purchasing policies. The Department's Fiscal Policy and Procedures § .2600—Accounts Payable and Procurement Policy defines small purchases as purchases equal to or less than $1,000 but does not address purchases for amounts ranging from $1,000 and up to $5,000. This policy is the one the Division of Correction Enterprises stated it complied with. The Division of Departmental Purchasing and Services, however, operated under a different small purchasing policy. This policy, dated February 4, 2004, addressed purchases of $5,000 and less and was written in conformity with state purchasing rules. This policy was not disseminated to personnel of other departmental units or divisions but used only by Division of Departmental Purchasing and Services staff;

Before completion of fieldwork on this audit, the Department took some corrective action when it became evident that small purchasing rules had been circumvented. Duties were reassigned and reports produced to identify purchasing trends. Policy was changed to require key individuals in the purchasing process to guard against split purchases to avoid competition. The small purchasing policy provisions used by the Division of Departmental Purchasing and Services were incorporated into Fiscal Policy and Procedures § .2600 and the revised policy was distributed throughout the Department with instruction that all employees having procurement responsibilities comply with the revised policy.

Recommendation: The Division of Correction Enterprises should ensure that its personnel, especially those who are responsible for making requisitions, are aware of and comply with state and department purchasing rules, regulations, and policies. The Division's approval levels should examine requisitions for compliance with purchasing rules before approving them. The Division should consider a process where current and future needs are estimated and should seek term contracts where economically advantageous and feasible in order to foster better product price, minimize price fluctuations, and to enhance the small purchase process.

The Division of Departmental Purchasing and Services should categorize requisitions by commodity types or codes. A commodity type should be assigned to, processed, and controlled by the same purchasing agent. The Division should provide guidance to purchasing agents on how to handle situations that circumvent purchasing policies. The Division should continue to run periodic reports to identify purchasing trends and should investigate any deviation from purchasing rules.

The Department should clarify the purchasing responsibilities between the Division of Correction Enterprises and the Division of Departmental Purchasing and Services and should review its policies and procedures and make needed changes. Policies should be communicated and enforced. Also, when necessary because of product standardization, compatibility, or other pertinent factors, the Department should ask for exemption from the bid process requirements by seeking a "waiver of competition" from State Purchasing and Contract.

Department Response: The Department appreciates the State Auditor's Office examining Correction Enterprises small purchases after receiving my written request dated April 1, 2005. We have reviewed and concur with the audit findings, and have taken the following corrective action:

The Departmental Small Purchasing Policy has been incorporated into the DOC Fiscal Policy & Procedures Section .2600, distributed throughout the Department of Correction, and posted on the DOC Controller's website. The Department is currently revising the .2600 Policy to strengthen the guidelines on obtaining competition and avoiding splitting purchases.

Departmental Purchasing Management and Correction Enterprises Management are working closely together to monitor compliance with purchasing policies. Weekly joint management meetings are held to discuss purchasing-related issues (grouping like commodities, reviewing specifications to ensure opportunities for competition, and discussing upcoming needs and time-sensitive requirements).

In fiscal year 2004-05, Departmental Purchasing issued 72,601 purchase order lines valued at $257,551,390. With this volume of purchases it would be difficult to assign Purchasing Agents based on commodity type and codes as recommended. However, the Department has established a new Correction Enterprises Purchasing Section (supervisor and three staff) to manage commodity purchasing requirements of Correction Enterprises.

Departmental Purchasing Management now regularly analyzes weekly and quarterly reports available in E-Procurement to monitor requisitions and identify repetitive requests which could be consolidated or bid as agency specific term contracts. These reports, however, do not provide all necessary information and the process of generating data can be quite labor intensive. The Department will work with appropriate State Government officials to seek improvements in reporting capabilities at the agency level.

Correction Enterprises is closely monitoring purchases to ensure annual usage is requisitioned at one time and procured on agency specific contracts. Correction Enterprises Management is ensuring that products used by multiple plants are compiled into a single bid package and placed on agency specific contracts. They are also utilizing E-Procurement reports to monitor raw material requisitioning practices.

DOC Internal Audit will increase audits of this area.

2. THE DEPARTMENT MADE SALARY OVERPAYMENTS

The Department of Correction made overpayments to a large number of current and former employees. The Department estimates it may not be able to collect as much as 30 percent, or $154,000, of these overpayments and may have to write them off resulting in a loss of financial resources. The problem of salary overpayments was first noted during the fiscal year 2000 audit.

Based on our examination and analyses of the accounts receivable software package that tracks payroll overpayments we discovered the following:

- Total overpayments made during the seven-month audit period were about $242,000, of which the Department collected about $117,000 or 48 percent;

- Salary overpayments were made to 377 people during the audit period (monthly average of 54 people);

- About $516,000 was still outstanding at January 31, 2005, of which $451,000 is over 90 days old.

We selected a sample of 40 overpayments to determine their causes. We found that 36 overpayments, or 90 percent, were made because the payroll office was not notified in a timely manner of the employees' separation from the Department.

The Department has made a series of efforts to address the problem of payroll overpayments. The Department wrote a comprehensive policy on how to handle payroll overpayments. The manual also contains step-by-step instructions on how to facilitate collections through a number of strategies including voluntary payment, payroll deductions, civil suits and referrals to the Attorney General's Office, Department of Revenue tax refund set-offs, and private collection agencies.

The Department also purchased an accounts receivable software package to track payroll overpayments. Accounts are maintained on each employee or former employee; monthly statements are mailed; various reports are shared with management including invoice reports, receipts and aging reports. A copy of each individual payroll overpayment is sent to the Division's chief financial officer to follow up, to ascertain why the overpayment occurred, and to take appropriate corrective or disciplinary action if applicable.

Recommendation: The Department should review its policies and procedures and develop effective procedures that will eliminate or minimize payroll overpayments. A key component to a solution is the Department's notification process to the payroll office when employees leave the Department. A clearly defined notification process should be implemented and actively enforced. The Department should continue its efforts to track, report, and collect overpayments.

Department Response: The Department agrees that payroll overpayments were made largely due to the Payroll Office not being notified by facilities/sections in a timely manner of the employees' separation from the Department. The Department of Correction Personnel Manual and the Department's Fiscal Policy and Procedure Manual require DOC locations to immediately call the Payroll Office to place stop payments on employees who have separated from employment or exhausted leave and fallen into a leave without pay status.

There are several factors, some external to the Department, that make it extremely difficult to eliminate all overpayments. These include high number of DOC locations (400+), an early month end payroll deadline, direct deposit of employee checks, high turnover of staff (more than 300 separations per month), and mandatory salary continuation payments due to on the job injuries which are later determined to be unfounded. When an overpayment does occur, the Controller's Office notifies the respective Fiscal Officer of the Division in which the overpayment occurred to alert them of the overpayment. The Controller's Office requests the Division to investigate the circumstance which led to the overpayment, and to address their staff with disciplinary action if appropriate. As indicated in the audit, the Department has a comprehensive policy on how to handle payroll overpayments when they do occur.

DOC Personnel is developing training on separations for facility human resource professionals as a prevention strategy for reducing payroll overpayments. Payroll overpayment reports are run monthly by the Controller's Office. This information will be shared with DOC Personnel to identify the units/facilities with the highest number of overpayments to target those facilities for training.

While the Department's goal is to eliminate salary overpayments, it is important to note the number and amount of overpayments in context with the overall number of employees and total payroll. The monthly average of 54 salary overpayments is just over ¼ of 1 percent (.28%) of approximately 19,000 employees and the monthly average dollar amount of overpayments is .07 percent of the total monthly gross salary.

DOC Internal Audit will monitor and determine if Department policies are followed and inform management to assist in ensuring appropriate corrective action is taken.

3. DISBURSEMENT PROCESS CONTAINS WEAKNESSES

The Department made payments that were not properly supported, were not cancelled to prevent duplicate payment, had not been approved for payment, or that were not always paid timely. The failure to adequately document payments and to obtain approvals from authorized officials put the Department at risk of paying for services or goods that were not rendered or paying the incorrect amount. There is an increased risk of duplicate payment when documentation is not marked or defaced when paid or when disbursements are not paid from original invoices. Also, late payment of invoices prevents the Department from taking advantage of cash discounts.

We tested several types of expenditures made by the Department. The results of our tests of disbursements made by the accounts payable section were as follows:

a. A test of 17 expenditures from the largest medical expenditures uncovered deficiencies. Although the amounts expended were determined to be proper, the exceptions disclosed control weaknesses that could otherwise have lead to different outcomes:

   1) Five transactions, a total of $23,006, were paid based on invoices that did not state the amounts due the provider. The accounts payable clerk calculated the amounts payable based on submitted timesheets and paid the amounts without any approval;

   2) Although the amounts expended under the contract were deemed proper, one invoice for $17,500 was paid five times and paid without obtaining approval;

   3) A provider was paid $35,000 from an invoice for $17,500, and then paid again from the same invoice for a total of $70,000. Although the payments were determined to be proper, they were not approved for payment.

b. A test of disbursements classified as "miscellaneous" by the Department uncovered some exceptions. From a sample of 40 such disbursements we noted the following:

   1) Eight items were not paid in a timely manner or in accordance with purchase terms;

   2) Four items were not cancelled with a paid stamp to prevent duplicate payment. One item was paid twice due to this oversight;

   3) Four items were not paid from original invoices. They were paid from faxed documents or photocopies of invoices;

   4) The receipt date for two invoices was not indicated; therefore, timeliness of payment could not be determined;

   5) One invoice was not approved for payment.

c. In a test of 25 "extradition" disbursements made by the accounts payable section, we noted that none were paid in a timely manner or in accordance with purchase terms.

Also, the following exceptions were noted in a sample of 40 disbursements made by the Division of Correction Enterprises:

a. Fourteen items were not paid in a timely manner or in accordance with purchase terms;

b. Four disbursements were not supported by the original invoice and one disbursement was not supported by any documentation;

c. The receipt date for seven invoices was not indicated; therefore, timeliness of payment could not be determined;

d. Two invoices were not cancelled when paid.

Recommendation: The Department should adhere to prescribed policies and procedures for the processing of cash disbursements. Amounts paid should be adequately documented, required approvals should be obtained before payments are made, supporting documentation should be cancelled to prevent duplicate payments, and payments should be made in a timely manner.

Department Response: The Department agrees with this finding and will take corrective action to strengthen controls and compliance with policy. The Controller's Office will update internal procedures and provide additional training to accounts payable staff to ensure that invoices are date stamped when received and date stamped when entered for payment. The Controller's Office will assign a position to audit paid invoices for compliance with policy. A formal notification system will be used to notify the chain of command when invoices are submitted late or incorrectly to the Controller's Office for payment.

The Controller's Office has written internal procedures which require supervisory approval before payment of a fax or photocopy invoice is made. While DOC agrees that paying from an original invoice is the best practice, some vendors follow the practice of faxing an invoice for payment. In these cases, no original invoice is sent and the fax is the original. In addition, some vendors e-mail their invoices, which would be printed off the computer or in the case of ITS E-billing, the invoice is downloaded and printed off the computer. There are also cases where the original invoice has never been received in the accounting office and the vendor is demanding payment. The vendor, in these cases, may fax the invoice to expedite payment and the accounting office will pay based on the fax to prevent services from being stopped or late fees from occurring. The Controller's Office recognizes there is a potential risk associated with paying from faxes or photocopies and has implemented additional procedures to increase controls.

The Department agrees with the findings related to medical expenditures. The monthly amount of $17,500 due to a vendor was based on the contracted amount and it was the appropriate dollar figure to pay, no overpayments occurred: however, an invoice will be required from the vendor for the $17,500 before payment is made.

The Department would also like to note that disbursements for the Division of Correction Enterprises are actually made by the General Accounting Section of the Controller's Office.

DOC Internal Audit will increase its monitoring of this area.

4. PRISON FACILITIES DID NOT VERIFY HOURS WORKED BY INMATES

The Department of Correction does not adequately verify hours worked by inmates before paying them incentive wages. Failure to verify hours worked by inmates leads to a greater risk of unauthorized payments to inmates. Also, this failure is a violation of the Department's fiscal policies.

The Department does not require verification of hours worked by inmates (the activity attendance sheet) to be submitted to the controller's office. Instead, each supervisor is expected to sign and retain the activity attendance sheet. However, our tests disclosed that supervisors at some facilities did not sign and retain the activity attendance sheets. We tested one Correction Enterprise plant at each of the 18 Division of Prisons facilities in our sample and found that plant supervisors at 11 Correction Enterprise plants did not sign and retain activity attendance sheets.

Recommendation: The Department should continue to monitor compliance with its policies and procedures and should take corrective action whenever violations of its policies are uncovered. The Department should inform facility supervisors of the importance of verifying hours worked by inmates and maintaining the appropriate documentation. The Department should consider changing its requirements for documentation completion and retention and should investigate the feasibility of requiring the submission of pay documentation to the controller's office.

Department Response: The Department agrees with this audit finding and will inform facility/plant supervisors of the importance of verifying hours worked by inmates and maintaining the appropriate documentation. The audit finding indicated that the auditor's test was limited to Correction Enterprises plants and found they were deficient in signing and retaining activity attendance sheets. Correction Enterprises plant supervisors indicated they were not able to print the required report due to a lack of equipment/software that allowed the report to be printed. Therefore, signed documentation verifying hours worked by inmates was not available for review. Fiscal Policy and Procedures were updated June 7, 2005, to allow for verification of inmate hours worked by use of a "screen print" to accommodate Correction Enterprises plant equipment/software. Correction Enterprises plants can now print, sign and retain copies as indicated by Fiscal Policy and Procedure. Also, DOC Internal Audit will continue to monitor compliance with the policy as part of its field audits.

5. CONTROL OF CELL PHONES NEEDS IMPROVEMENT

The Department has not accumulated the data necessary to attain a reasonable level of control over the use of cell phones nor has it sufficiently enforced its own policy regarding the payment of cell phone bills. As a result, the Department's ability to identify inaccurate billings and overcharges has been compromised. Also, the risk that unauthorized cell phone use can occur and not be detected has increased.

- The Department's cell phone database contains inaccurate data and lacks certain key data. Cell phones are assigned to the various units/facilities of the Department. Departmental policy also requires that they be assigned to contact persons or users. Of the 769 cell phones in the database, 462 phones were not assigned to specific persons. Also, the Department was billed for 14 phones for which there was no record in the database and the database contains data on 36 cell phones the Department previously cancelled or had returned for repair;

- Of 40 cell phone expenditures tested by us, we found that facility/section heads or designees did not review and certify the validity of charges for 12 of the expenditures by the stipulated deadline, and for nine of these, approvals were still outstanding as of completion of the audit.

During the course of our fieldwork, we informed the Department of the deficiencies. The Department responded and took corrective action regarding the deficiencies in the database in May 2005.

Recommendation: The Department should regularly maintain the cell phone database. This would include assigning the phones to individual users. The inventory of phones in use by the Department should be verified and billings should be checked to ensure that the Department pays for only phones that are actually in use. The Department should institute measures to foster timely approval of cell phone charges.

Department Response: The Department concurs with the audit findings, and has taken the following corrective action:

Policy requires cellular phone charges to be reviewed and approved by the facility/section head or designee and then to notify the Controller's Office that the bill has been reconciled and approved. The Controller's Office has implemented procedures to more closely monitor approvals and follow up in a timely manner, if approvals are not received according to policy. A formal notification system is now being used to notify the chain of command when approvals are not received timely.

The Department has updated the cell phone database and the cell phone form (CPSR-DOC) to comply with policy .2400. Reports from the updated cell phone database have been sent to facilities/sections to be verified. Billings are now reviewed monthly to ensure that the Department pays for only phones that are actually used. Periodic audits will be performed by Departmental Purchasing to ensure accuracy of the database. This audit will include verifying with facilities/sections the cell phone assignment, contact persons, cancellation and returns for repairs.

DOC Internal Audit completes a physical inventory of cell phones assigned to each facility/section and reviews cell phone monthly bills for proper approval during field audits. Management is informed of Internal Audit's findings. Internal Audit will continue to monitor cell phone assignment and approval of monthly bills to ensure policies are followed.

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October 18, 2005

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