



Secretary of State Audit Report

Department of Corrections Inmate Trust Funds Audit

Summary

PURPOSE

The objective of this audit was to determine if the Department of Corrections (department) has adequate controls over inmate trust funds and maintains adequate supporting documentation for recorded transactions.

RESULTS IN BRIEF

Although we found that the department has implemented some internal controls to ensure proper recording of inmate trust transactions, we identified internal control weaknesses that should be addressed by the department.

RECOMMENDATIONS

We recommend that the department perform monthly cash reconciliations and improve controls over check stock. In addition, we recommend the department ensure documentation authorizing expenses posted to inmate trust funds is retained.

AGENCY'S RESPONSE

The Department of Corrections generally agrees with the audit findings and recommendations.

Background

As of January 1, 2004, more than 12,250 inmates were incarcerated in Oregon Department of Corrections (department) state prisons. The department maintains a trust fund for each inmate. Inmates can receive money from a variety of sources, including: donations from friends and family, awards for good behavior and participation in inmate work and education programs, such as those administered by Oregon Correctional Enterprises. Inmates also receive interest on the balance of their trust funds.

Inmates can use their trust funds to pay expenses such as those related to purchases at the facility store, known as a canteen, or for payments made to family members. The department deducts money from trust funds to reimburse the department for medical expenses, postage, and disciplinary fines. Any amount remaining in an inmate's trust fund is paid out to him or her upon discharge.

In order to properly account for the trust funds, the department utilizes the

TAG system to process transactions and calculate inmate trust balances. The TAG system recorded approximately 1.2 million transactions per year in calendar years 2002 and 2003. As of December 31, 2003, the cash balance in inmate trust funds totaled almost \$3 million.

Audit Results

We found the department has adequately segregated most inmate trust fund duties and implemented procedures to ensure trust fund disbursements are properly authorized. In addition, we found inmate point awards were properly recorded in inmate trust funds.

We did, however, identify certain weaknesses related to cash reconciliations, check stock, and document retention. These weaknesses should be addressed by the department.

Cash Reconciliations Not Performed

We found the department has not performed reconciliations between the inmate trust fund balance and the corresponding Oregon State Treasury (Treasury) account since July 2001.

The *Oregon Accounting Manual* (OAM) states, "Reconciliations should be performed between agency records ... and Treasury statements for funds maintained by Treasury."¹

The department has not made cash reconciliations a priority. Not performing cash reconciliations increases the risk errors or fraud can go undetected for long periods of time, making remediation potentially more problematic. Since the commencement of our audit, the department has performed a reconciliation between its inmate trust fund balance and Treasury's balance as of December 31, 2003.

We recommend the department make cash reconciliations a priority and reconcile the inmate trust fund balance to the Treasury trust fund balance on a monthly basis.

Agency's Response

The department agrees that cash reconciliations must be done in a timely manner. Due to extended illness and one-year

medical leave by the Trust Manager, the cash reconciliation was not current at the time of the audit. The department is actively recruiting for the Trust Manager position. In addition, an Accountant 2 position has been included in the Agency Request policy package to help address the ongoing accounting workload. In the interim, the reconciliation is being done within current resources as time permits.

Check Stock Not Adequately Controlled

We found that the department had not taken appropriate action to secure inmate trust fund check stock in accordance with OAM and Oregon State Treasury Cash Management Manual policies.²

Specifically, we noted the following:

- Two check signers have the ability to print checks via the TAG system;
- Not all check stock was stored in the locked safe due to storage constraints;
- Pre-printed check control numbers are not utilized to control check stock;
- A check log of used checks is not maintained; and
- Periodic check stock inventories are not performed.

It is important for agencies to properly secure check stock to decrease the risk of unauthorized transactions.

We recommend the department follow the OAM and Oregon State Treasury Cash Management Manual guid-

ance and maintain adequate controls over check stock. Specifically, the department should:

- Segregate the responsibilities to print and sign checks;
- Secure all unused check stock;
- Utilize preprinted check control numbers and a check control log to control check stock; and
- Perform periodic check stock inventories.

Agency's Response

The department agrees that the responsibility to print and sign checks should be segregated. This finding is the result of the Accounting Manager covering responsibilities for vacant Trust Manager Position by signing checks. The Accounting Manager inadvertently retained the print capability in his system profile, as his previous position was Technical Support for the Trust system. The department will correct this problem.

The department has addressed the security of the check stock.

The department is reviewing the process of tracking blank check stock. The TAG system prints its own checks with a MICR machine so blank check has a lower risk of being misused than preprinted stock. The department agrees with the recommendation to use a check control log and to perform periodic check stock inventories. Those processes are being developed and staff will be trained to maintain this process.

Inmate Authorization Not Located

We reviewed a sample of inmate account transactions that should have been supported by documentation signed by the inmate. Of the 50 trans-

¹ OAM 10.20.00PR.104

² OAM 10.10.00PR.106, .111, 10.20.00PR.143; Treasury Cash Management Manual 02.18.02PO.105

Audit Results

actions sampled, we found one transaction that was not supported by documentation signed by the inmate (2 percent). Without supporting documentation, it was difficult to determine if this transaction was a legitimate charge against the inmate's trust fund.

According to department employees, this transaction should not have been processed without documented authorization by the inmate.

We recommend the department retain documentation supporting appropriate authorization of transactions.

Agency's Response

All disbursements directly from an inmate's account require both the inmate's signature and a DOC staff signature on a document called a CD 28. All CD 28's

are retained as authorization to disburse funds in the Central Trust Office. The department agrees that all inmate transactions should have corresponding documentation and will continue to monitor the CD 28 for complete signature authority.

However, this finding is a canteen order form that does not process through Central Trust. These transactions are handled at the institution. The process is as follows:

An inmate completes an order form for a canteen product. The order is sent to a central warehouse canteen staff person who enters the order into TAG and fills the order from inventory. At that point, TAG automatically deducts the amount of the order from the in-

mate's account. The order is returned to the inmate with the copy of the order form attached to the paper sack. The inmate signs the order form for the purchase at that point and the order form is retained by each institution canteen.

The department agrees that the canteen ordering process should include the collection and retention of the inmate's signature. We will continue to train canteen staff on this policy for all canteen orders.

Objectives, Scope and Methodology

The objective of this audit was to determine if the Department of Corrections (department) has adequate controls over inmate trust funds and maintains adequate supporting documentation for recorded transactions.

During the audit, we reviewed a sample of trust fund transactions recorded during the period January 1, 2002 through December 31, 2003. In addition, we interviewed department employees responsible for maintaining the TAG system and recording and processing inmate trust fund transactions. We also reviewed applicable policies, procedures and laws and regulations that relate to inmate trust funds.

Fieldwork was conducted during February through June 2004. We conducted our audit in accordance with generally accepted government auditing standards.



Secretary of State
Audits Division

BILL BRADBURY, SECRETARY OF STATE
CATHY POLLINO, STATE AUDITOR, AUDITS DIVISION

255 Capitol St. NE Suite 500
Salem, OR 97310

*Auditing to Protect the
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AUDIT MANAGER: *Jason M. Stanley, CPA, CFE*

AUDIT STAFF: *Ryan K. Dempster, CPA
Raul Valdivia, CPA
Raja Ismail*

DEPUTY STATE AUDITOR: *Mary E. Wenger, CPA*

*The courtesies and cooperation extended by the officials and staff of the
Department of Corrections were commendable and much appreciated.*

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*Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, OR 97310*

*by phone at 503-986-2255 and 800-336-8218 (hotline), or
internet at Audits.Hotline@state.or.us and
<http://www.sos.state.or.us/audits/audithp.htm>*