

Schedule of Audit Findings

Department of Corrections July 1, 1999 through June 30, 2000

1. **Public funds were misappropriated and accounting records were falsified and destroyed at the Airway Heights Correction Center.**

Background

The Department of Corrections pays each inmate \$40 in gate money upon release from a correctional facility. At the Airway Heights Corrections Center, these payments are made in cash from an \$850 petty cash fund. When the cash fund is periodically replenished, reimbursement requests must be supported by a signed Release of Funds form for each inmate indicating receipt of the payment.

Description of Condition

We found that at least \$3,920 in public funds was misappropriated from the Airway Heights Correction Center by an Accountant 1 between November 12, 1999, and August 8, 2000. Accounting records were falsified and destroyed to conceal these losses. No federal funds were involved in this case.

The Accountant 1 submitted petty cash reimbursements for fictitious transactions to obtain funds in excess of current requirements. These extra funds were then taken.

For every inmate released, Institution staff completed a Release of Funds form. This form documented, among other things, the amount of gate money requested and eventually paid to each inmate. The form was photocopied at Inmate Banking, marked with a red stamp bearing all required approval signatures and given to the Accountant 1 for processing. The Accountant 1 retained this copy of the form on file as evidence that gate money had been transferred from the petty cash fund to an employee at Inmate Banking. Upon release, inmates signed the original Release of Funds form indicating receipt of the gate money. The original of the Release of Funds form then was filed at Inmate Banking, while carbon copies of the form were filed in other offices at the Institution.

The Accountant 1 then used the red stamped photocopy of the Release of Funds form to request reimbursement of the petty cash fund. For every legitimate payment of gate money to an inmate, there must be a signed, original form on file, as well as a photocopy of the form with the red stamp bearing the required approval signatures of the inmate counselor and appropriate Inmate Banking employees.

During our audit, we reviewed the original and duplicate red stamped Release of Funds forms on file at the Institution during the period November 12, 1999, through August 8, 2000. These forms were missing for February and April 2000 and appeared to have been prematurely destroyed. The Department prepared a list of all inmates released from the Airway Heights Correction Center during this time for our review.

We found that the Accountant 1 requested petty cash fund reimbursements in excess of current requirements. While inmates can be paid gate money only once upon release, the Accountant 1 submitted petty cash reimbursement requests more than once for the same inmate on more than one occasion. Most of the extra transactions represented multiple payments for inmates listed on prior reimbursement requests. However, some extra transactions represented duplicate

payments for one inmate on the same reimbursement request. On several occasions, the Accountant 1 simply requested reimbursement for the names of more inmates than were actually released during the month.

During our interview on February 27, 2001, the Accountant 1 denied taking any public funds for personal use. However, these extra funds were not on-hand in the petty cash fund, and the Accountant 1 could not provide any reasonable explanation for the missing money. In addition, the Accountant 1 denied ever having excess funds on-hand in the petty cash fund as a result of the excess reimbursement transactions identified during this audit, and never officially reported any shortages in the fund to management officials. The Accountant 1 has resigned employment at the Institution.

While the Department is insured against losses due to employee dishonesty, this loss did not exceed the deductible provision of the insurance policy.

Cause of Condition

We found inadequate internal controls over the petty cash fund at the Airway Heights Correction Center. For example:

- Duties were not appropriately segregated. The Accountant 1 prepared the petty cash reimbursement request, attached the supporting documents, prepared the reimbursement check, presented the check to another individual authorized to sign the check, received the proceeds from the transaction when the check was cashed, filed the Release of Funds forms and performed the petty cash fund reconciliation.
- Petty cash fund reimbursement checks were signed without a thorough review of all supporting documents.
- The petty cash funds were not secured in a locked container while stored in the safe. In addition, several employees had access to the safe.
- An independent party did not properly monitor petty cash fund operations to determine whether all funds were properly accounted for and controlled. For example, the original Release of Funds forms were not used to support requests for reimbursement. Instead, copies of these forms were used. Additionally, an independent reconciliation of the petty cash fund was not periodically performed at the Institution.

Effect of Condition

Inadequate internal controls increase the risk of a misappropriation of public funds and impairs the Department's ability to prevent or detect errors and irregularities in a timely manner, if at all. These conditions also allowed an Accountant 1 to circumvent internal controls in the petty cash fund and misappropriate at least \$3,920 in public funds from the Department.

Recommendations

We refer this matter to the Spokane County Prosecuting Attorney for any action deemed appropriate. We further recommend the Department of Corrections seek recovery of the misappropriated \$3,920 and related audit/investigation costs from the Accountant 1. Any compromise or settlement of this claim must be approved in writing by the Attorney General and the State Auditor as directed by RCW 43.09.310.

We also recommend the Airway Heights Correction Center establish effective internal controls designed to ensure the protection of public assets.

Department's Response

This fraud was detected and inadequate controls identified by Department staff performing an internal audit of the petty cash. The Department is taking steps to improve the internal controls as recommended by the State Auditor's Office in this finding.

Auditor's Remarks

We wish to thank the staff and employees of the Department of Corrections for their cooperation and for the Department's timely response to our audit finding. We will review the petty cash function during our next regularly scheduled audit of the Department. We welcome the opportunity to assist the Department in evaluating and implementing an effective system of internal controls over cash receipts.

Schedule of Audit Findings

Department of Corrections July 1, 1999 through June 30, 2000

2. The Department of Corrections did not comply with state laws and regulations regarding control over local cash accounts.

Description of Condition

The Department of Corrections did not comply with the requirements of the Office of Financial Management and its own policies and procedures requiring control over local funds. These are separate authorized funds administered by various institutions and regional business service centers. The money in these funds is in separate bank accounts, controlled by these different locations. The Department has in excess of \$12 million in commercial institutions outside of the State Treasury. We audited some of these accounts at six correctional facilities, and discovered the following control weaknesses:

- Employees at four of the six locations were not completing bank reconciliations in a timely manner. Local accounts should be reconciled each month from the recorded amount in each account register to the bank statement, and also to the amount in the general ledger. Reconciliations should be designed to catch mistakes and irregularities. At the McNeil Island Correction Center, Funds 651 and 512 had not been reconciled for all of fiscal year 2000. The Monroe Correctional Complex also had not reconciled funds 651 and 512 for much of fiscal year 2000. Reconciliations for funds maintained by the Southwest Regional Business Service Center and Southeast Regional Business Service Center were not done in a timely manner.
- Employees at four of the six locations tested had not updated the general ledger on a monthly basis for Fund 800 as required. We found this condition at McNeil Island, Monroe, the Southeast Regional Business Service Center and the Northeast Regional Business Service Center.
- For three of six locations, we could not reconcile the petty cash balance to the authorized amount. We found this at McNeil Island, Monroe and Southeast Regional Business Service Center.

We reported this condition to management at the conclusion of our last two annual audits.

Cause of Condition

Several factors contributed to this condition.

- Conversion to the Trust Accounting System from the Inmate Banking System with subsequent problems in the new system.
- Restructuring of Department field and regional offices with corresponding changes in responsibilities.

Effect of Condition

Without reconciling these local accounts from the amount in official accounting records to the bank statements in a timely manner, the Department cannot ensure money in these accounts is properly safeguarded against loss or misuse, or reported accurately.

Recommendations

We recommend that the Department comply with state laws and regulations and its own policies and procedures regarding local funds (and accounts).

We also recommend that management establish controls to ensure:

- Local fund accounts in commercial institutions are reconciled in a timely manner.
- Petty cash funds are maintained at the authorized level.
- The general ledger is updated on a monthly basis for Fund 800 activity.

Department's Response

The Department recognizes the importance of timely bank reconciliation and proper accounting for local funds, and will ensure compliance with state regulation and internal policies.

Auditor's Remarks

We appreciate the actions being taken by the Department. We will review these matters during the course of our next audit.

Applicable Laws and Regulations

The Office of Financial Management's *State Administrative and Accounting Manual* lists the following accounting and control requirements for local funds in commercial institutions:

Section 85.50.40.c:

Accounts maintained in commercial institutions (e.g., banks, savings and loan associations, etc.) including petty cash accounts, are to be promptly reconciled with agency records on a monthly basis. The balance shown on the bank statement may not agree with the agency's book balance. Variances can occur because of outstanding checks, deposits in transit, bank service charges, or other adjustments. Adjusting entries may be required when entries appear on the bank statement without corresponding entries in the agency's books. Adjusting entries, if necessary, are to be promptly prepared and recorded in the agency's records.

Section 85.50.60.d.6:

The total cash on hand, plus the amount of disbursements represented by the documentation, is to equal the authorized amount of the petty cash account.

The Department of Corrections Policies and Directives manual lists the following financial reporting requirements for the Offender Welfare Betterment Account and the Petty Cash Account:

DOC 200.200.XII.A:

Each facility shall enter all activity into agency Financial Reporting System (AFRS) by the close of the fiscal month in which the activity occurred. The activity may be recorded at summary level; however, revenue and expenditure activities are not to be netted against each other.

DOC 205.000.V:

The total cash in bank, less outstanding checks, plus the amount of cash in the change fund, plus unreimbursed expenditures represented by the documentation, is to equal the amount originally advanced to the petty cash account.

Schedule of Audit Findings

Department of Corrections July 1, 1999 through June 30, 2000

3. The Department of Corrections did not comply with state laws and regulations regarding controls over fixed assets.

Description of Condition

The Department of Corrections did not comply with the requirements of the Office of Financial Management (OFM) and its own policies and procedures regarding controls over fixed assets. Departmental policy closely follows the requirements of OFM. The Department has furnishings and equipment in excess of \$47 million. We discovered a lack of controls pertaining to fixed assets or controls in place but not operating effectively. We reviewed controls at Department headquarters and at seven correctional facilities: Airway Heights Corrections Center, Cedar Creek Corrections Center, Coyote Ridge Corrections Center, McNeil Island Corrections Center, Monroe Correctional Complex, Washington Corrections Center and Washington Corrections Center for Women. We found the following conditions:

- Physical inventories for small and attractive assets were not taken or were not documented within the last two years at Coyote Ridge Corrections Center and Washington Corrections Center. The physical inventories at McNeil Island Corrections Center, Monroe Correctional Complex, and Washington Corrections Center for Women were not conducted by personnel with no direct responsibility for the fixed assets subject to the count.
- Reconciliations between the physical count and the Capital Asset Management System were not completed and documented at Cedar Creek Corrections Center and Washington Corrections Center for Women.
- Written instructions for taking inventory were not adequate or were not provided to employees at Airway Heights Corrections Center, Cedar Creek, and Washington Corrections Center for Women. In addition, the physical inventory sheets were not consistently signed at Airway Heights, Monroe and Washington Corrections Center for Women.
- Not all assets selected for testing could be traced into the asset management system at Airway Heights, Cedar Creek, Coyote Ridge, McNeil Island and Monroe. In addition, assets were not always being tagged at Cedar Creek, Coyote Ridge, Monroe and Washington Corrections Center, as required for control purposes.
- There is no centralized certification of the Department's assets by the inventory officer as required by state regulation. The Department inventory officer is supposed to receive certified (signed) asset management system reports submitted by the institutions and field offices. However, there is no monitoring to ensure that all are received or that proper reconciliations have been done by the institutions and field offices. We found that physical inventories were not performed, and reconciliations were either not performed or not done properly.

Without monitoring, it would be difficult for the Department inventory officer to certify that the Department's reconciliation is correct.

Cause of Condition

These conditions exist due to limited staff resources and the assignment of a higher priority to other tasks within the Department. In addition, the reorganization of the Department has affected workloads and staff at all correctional facilities.

Effect of Condition

Without maintaining complete and accurate fixed asset records and completing regular physical inventories, the Department cannot ensure that state property and equipment is properly safeguarded and reported and that employees are accountable for its use.

Recommendations

We recommend:

- The Department comply with Office of Financial Management regulations and department policies and procedures for fixed assets.
- The Department establish controls to ensure that:
 - Assets are properly tagged, the assets are classified by type and can be traced into the accounting system and to their physical locations.
 - Physical inventories are properly performed and documented. Further, reconciliations from the inventory counts to the asset management system reports should be done and recorded at all institutions.
- The inventory officer at Department headquarters should ensure that all asset management system reports are received and have been reconciled to physical inventory counts by institutions and field offices. This should be part of certifying the Department-wide reconciliation of all fixed assets.

Department's Response

The Department recognizes the importance of maintaining proper controls over fixed assets and will ensure that the appropriate procedures are implemented.

We appreciate the efforts of you and your staff on our audit. The information you provide is valuable and, as always, we will work to improve our operations next year.

Auditor's Remarks

We appreciate the actions being taken by the Department. We will review these matters during the course of our next audit.

Applicable Laws and Regulations

The Office of Financial Management's *State Administrative and Accounting Manual* lists the following accounting and control requirements for fixed assets:

Section 30.30.10:

Mark all inventoriable fixed assets upon receipt and acceptance to identify that the property belongs to the state of Washington.

Section 30.40.40:

Upon receipt and acceptance of an inventoriable fixed asset, the agency inventory officer is responsible for supervising the addition of the asset to the inventory system. This includes assigning tagging responsibilities to specific individuals as well as developing and implementing procedures to ensure that the necessary information is entered into the fixed asset inventory records.

Section 30.40.55:

Conduct physical inventories at least once every other fiscal year for all inventoriable fixed assets.

Section 30.40.60:

In order to ensure objective reporting of inventory items, physical inventories should be performed by personnel having no direct responsibility (custody and receipt/issue authority) for assets subject to the inventory count. If it is not feasible to use such personnel for any part of the inventory, then those portions are, at least, to be tested and verified by a person with neither direct responsibility for that portion of the inventory nor supervised by the person directly responsible.

Section 30.40.65:

Written physical inventory instructions must be documented and distributed to each person participating in the inventory process. The procedure that the person counting the assets is to attest to the accuracy of the count by signing his or her name at the bottom of each inventory page . . .

Section 30.40.70:

After the physical inventory count is completed, the agency inventory officer is to conduct the reconciliation process. Reconciliation is defined as the process of identifying, explaining, and correcting the differences occurring between the physical count and the inventory records. When all differences have been identified, and explained, the inventory is considered reconciled.

After the inventory is reconciled, the agency inventory officer is to certify the reconciliation with a statement and signature that it is correct and report this to the supervisor. If the certification cannot be made, the inventory officer is to disclose that fact and the supervisor is to determine the appropriate course of action.