

Office of the Auditor General
Performance Audit Report

**Prisoner Accounts, Prisoner Store Programs,
and Prisoner Benefit Funds**

Department of Corrections

May 2015

State of Michigan Auditor General
Doug A. Ringler, CPA, CIA

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

Article IV, Section 53 of the Michigan Constitution



OAG

Office of the Auditor General

Report Summary

Performance Audit

Prisoner Accounts, Prisoner Store Programs, and Prisoner Benefit Funds Department of Corrections

Report Number:
471-0380-14

Released:
May 2015

The Department of Corrections (DOC) acts in a fiduciary capacity to maintain accounts on behalf of its prisoners. As of September 30, 2014, approximately 43,400 prisoner account balances totaled \$4.1 million. DOC operates three regional prisoner stores and maintains a prisoner benefit fund (PBF) at each facility. For the fiscal year ended September 30, 2014, the prisoner stores reported revenues of \$22.5 million, expenditures of \$21.1 million, and a net profit of \$1.4 million and PBFs reported revenues of \$4.1 million, expenditures of \$4.0 million, and fund equity of \$4.2 million.

Audit Objective			Conclusion
Objective #1: To assess the effectiveness of DOC's controls to ensure the accuracy of prisoner accounts.			Effective
Finding Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
DOC did not ensure that prisoner payroll was proper. Documentation for 11 of 12 food service payroll transactions indicated that prisoners worked 10 to 16 hours per day, with one prisoner working 99 hours in one day; 214 to 508 hours per month; and 23 to 31 days per month (<u>Finding #1</u>).		X	Agrees

Audit Objective			Conclusion
Objective #2: To assess DOC's compliance with laws, policies, and procedures related to prisoner accounts.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.	Not applicable	Not applicable	Not applicable

Audit Objective			Conclusion
Objective #3: To assess the effectiveness of DOC's controls to properly administer the prisoner stores.			Effective
Finding Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
DOC did not always ensure that the prisoner population was notified of the prisoner store and PBF activities, potentially consuming time and effort of DOC personnel to respond to unnecessary prisoner inquiries (<u>Finding #2</u>).		X	Agrees

Audit Objective			Conclusion
Objective #4: To assess the effectiveness of DOC's controls to ensure the accuracy and transparency of PBFs.			Effective
Finding Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
DOC did not always ensure that the prisoner population was notified of the prisoner store and PBF activities, potentially consuming time and effort of DOC personnel to respond to unnecessary prisoner inquiries (<u>Finding #2</u>).		X	Agrees

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>

Office of the Auditor General
201 N. Washington Square, Sixth Floor
Lansing, Michigan 48913

Doug A. Ringler, CPA, CIA
Auditor General

Laura J. Hirst, CPA
Deputy Auditor General



OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • <http://audgen.michigan.gov>

Doug A. Ringler, CPA, CIA
Auditor General

May 29, 2015

Mr. Daniel H. Heyns, Director
Department of Corrections
Grandview Plaza Building
Lansing, Michigan

Dear Mr. Heyns:

I am pleased to provide this performance audit report on the Prisoner Accounts, Prisoner Store Programs, and Prisoner Benefit Funds, Department of Corrections.

We organized the background, findings, and recommendations by audit objective. Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days of the date above to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Doug Ringler
Auditor General

TABLE OF CONTENTS

PRISONER ACCOUNTS, PRISONER STORE PROGRAMS, AND PRISONER BENEFIT FUNDS

	<u>Page</u>
Report Summary	1
Report Letter	3
Background, Findings, and Recommendations	
Ensuring the Accuracy of Prisoner Accounts	8
1. Improved controls needed over prisoner payroll.	9
Compliance Related to Prisoner Accounts	11
Properly Administering the Prisoner Stores	12
2. Improved communication needed for prisoner store and PBF activities.	13
Ensuring the Accuracy and Transparency of PBFs	15
Description	16
Audit Scope, Methodology, and Other Information	17
Glossary of Abbreviations and Terms	21

BACKGROUND, FINDINGS, AND RECOMMENDATIONS

ENSURING THE ACCURACY OF PRISONER ACCOUNTS

BACKGROUND

The Department of Corrections (DOC) acts in a fiduciary capacity to maintain accounts on behalf of the prisoners in its facilities. Prisoner accounts are maintained in the Trust Accounting and Payroll System* (TAPS). Account transactions are made for purchases of personal items, prisoner debt, medical copayments, prisoner payroll, monies received from nonprison sources, and refunds of vendor purchases. As of September 30, 2014, approximately 43,400 prisoner account balances totaled \$4.1 million.

AUDIT OBJECTIVE

To assess the effectiveness* of DOC's controls to ensure the accuracy of prisoner accounts.

CONCLUSION

Effective.

FACTORS IMPACTING CONCLUSION

- DOC reconciled prisoner accounts on a monthly basis.
- DOC regional offices properly approved prisoner account transactions.
- DOC properly processed 504 (97%) of the 521 transactions reviewed, including prisoner deposits, vendor refunds, sales tax refunds, prisoner expenses, and prisoner payroll.
- Reportable condition* related to DOC's processing of prisoner payroll. For 11 of the 35 payroll transactions reviewed, payroll documentation indicated that prisoners worked more than allowed.

* See glossary at end of report for definition.

FINDING #1

Improved controls are needed to ensure prisoner payroll accuracy.

DOC did not ensure that prisoner payroll was proper. DOC may have overpaid prisoners and may not have provided employment opportunities to as many prisoners as possible to help reduce idleness and provide the prisoners with work experience.

DOC pays prisoners to work and to attend school. DOC policy directive 05.02.110 indicates that prisoners should not work or attend school for more than 5 days per week and 6 hours per day. Based on this, we determined that the maximum amount that a prisoner should work would be 6 hours per day and 130 hours or 22 days per month. Also, the policy directive indicates that scheduling may be reduced when it is necessary to limit prisoner idleness or distribute the available work in an equitable manner. In addition, DOC's prisoner education mission indicates that DOC is committed to providing workplace skills training to enhance a prisoner's ability to acquire job skills and develop positive and constructive work habits.

DOC pays prisoners monthly based on approved payroll documentation. We reviewed 35 judgmentally selected prisoner payroll transactions, totaling \$1,491, processed from October 1, 2011 through August 21, 2014. Twelve of the transactions were related to the food service payroll. For 11 of the 12 food service payroll transactions, the documentation indicated that prisoners worked more than:

Prisoners were paid for working as much as 99 hours a day, 508 hours per month, and 31 days per month.

- 6 hours per day, ranging from 10 to 16 hours per day, with one prisoner working 99 hours in one day.
- 130 hours per month, ranging from 214 to 508 hours per month.
- 22 days per month, ranging from 23 to 31 days per month.

The wardens had not approved any of the 11 prisoners to work in excess of 5 days per week. The payroll costs related to these 11 transactions totaled \$1,160. Based on either a 30-hour workweek or a 130-hour work month, we calculated that \$736 (63%) of these food service payroll costs exceeded the amounts allowed by DOC policy.

DOC informed us that it relies on the food service vendor supervisors and the classification director to review and approve documentation for prisoner payroll.

RECOMMENDATION

We recommend that DOC improve controls to help ensure the accuracy of prisoner payroll.

**AGENCY
PRELIMINARY
RESPONSE**

DOC provided us with the following response:

DOC agrees and has complied by establishing additional review by business office accounting staff prior to processing the payroll. In addition, DOC has provided and will continue to provide training to food service vendor staff related to prisoner work assignment schedules and payroll. For the prisoner that was paid for working 99 hours in one day, there was a data keying error where 99 hours was entered instead of 9.9 hours. DOC is in the process of removing the funds from the prisoner's account to correct the error.

COMPLIANCE RELATED TO PRISONER ACCOUNTS

BACKGROUND

DOC is responsible for recording prisoner account transactions, informing prisoners of their account activity quarterly, and monitoring prisoner account balances. Account balances in excess of \$1,500 must be referred to the Department of Attorney General for reimbursement of the prisoner's cost of care, balances that remain inactive for more than two years must be remitted to the State's Escheats Fund, and accounts of prisoners who were transferred to another DOC facility must be transferred accordingly.

AUDIT OBJECTIVE

To assess DOC's compliance with laws, policies, and procedures related to prisoner accounts.

CONCLUSION

Effective.

FACTORS IMPACTING CONCLUSION

- DOC provided prisoner account statements monthly.
- DOC properly processed all of the prisoner debt transactions that were reviewed.
- DOC notified the Department of Attorney General of all prisoner account balances over \$1,500.
- DOC remitted all of the prisoner account balances tested that were inactive for more than two years to the State's Escheats Fund.
- No findings related to this audit objective.

PROPERLY ADMINISTERING THE PRISONER STORES

BACKGROUND

DOC operates three regional prisoner stores that stock a limited number of items. DOC establishes store prices at a level to ensure that the stores are self-sufficient and to provide a modest profit for the prisoner benefit funds (PBFs). Prisoners purchase store items for their personal use through a facility kiosk*, with a direct charge to their prisoner account. Each facility has a prisoner store committee including prisoner representatives. The prisoner store committee discusses store operation concerns, including the determination of store inventory items. The salaries of DOC employees and prisoners working in the prisoner stores are charged to the prisoner store operations. DOC transfers the prisoner store net profits to the respective facilities' PBFs on a pro-rata basis. For the fiscal year ended September 30, 2014, the prisoner stores reported revenues of \$22.5 million, expenditures of \$21.1 million, and a net profit of \$1.4 million.

AUDIT OBJECTIVE

To assess the effectiveness of DOC's controls to properly administer the prisoner stores.

CONCLUSION

Effective.

FACTORS IMPACTING CONCLUSION

- DOC performed all required physical inventories of the prisoner stores.
- DOC followed up all significant physical inventory differences.
- DOC accurately calculated storekeeper wages and allocated them to the prisoner stores.
- DOC accurately prepared financial statements for prisoner stores.
- DOC performed all required self-audits of the prisoner store programs.
- Reportable condition related to improved communication for prisoner store activities.

* See glossary at end of report for definition.

FINDING #2

Improved communication is needed for prisoner store and PBF activities.

DOC did not always ensure that the prisoner population was notified of the prisoner store and PBF activities. The prisoner population may not be aware of the decisions and activities of the prisoner stores and PBFs, potentially consuming time and effort of DOC personnel to respond to unnecessary prisoner inquiries.

DOC policy directive 04.02.130 requires the facility to post the minutes of each prisoner store committee meeting in a location accessible to prisoners. Also, DOC policy directive 04.02.110 requires that each facility report a summary of its PBF expenditures to the prisoner population and that the PBF committee be advised of the warden's approval or denial of PBF expenditures. DOC informed us that it accomplishes these requirements through posting the prisoner store committee meeting minutes, PBF expenditure summaries, and PBF committee meeting minutes in each facility's library and each housing unit.

Our review of the postings of the prisoner store committee meeting minutes, PBF expenditure summaries, and PBF committee meeting minutes in 1 library and 2 housing units at each of 8 judgmentally selected facilities disclosed:

- a. The prisoner store committee meeting minutes were not posted in 6 of the 8 libraries and 8 of the 16 housing units.
- b. The PBF expenditure summary was not posted in 6 of the 8 libraries and 6 of the 16 housing units.
- c. The PBF committee meeting minutes were not posted in 4 of the 8 libraries and 4 of the 16 housing units.

DOC staff at the facilities informed us that the prisoner store and PBF information may get posted and then taken down by a prisoner.

We noted a similar condition in our prior audit. DOC agreed with the prior audit recommendation and indicated that it would comply.

RECOMMENDATION

We recommend that DOC make improvements to its processes for communicating prisoner store and PBF activities.

AGENCY PRELIMINARY RESPONSE

DOC provided us with the following response:

DOC agrees and will comply. DOC communicates prisoner store and PBF activities to the prisoner benefit and store committee representatives and also posts this information in the libraries and

housing units. However, DOC cannot control if information is removed from those locations by prisoners. DOC is working with prisoner store and prisoner service vendors to allow posting of this information on housing unit kiosks.

ENSURING THE ACCURACY AND TRANSPARENCY OF PBFs

BACKGROUND

DOC maintains a PBF at each facility to provide services, supplies, and equipment for the direct benefit of the prisoners. All PBF purchases must be approved by the PBF committee and the warden. PBFs receive revenues from the prisoner store operations, photography sales, vending machine commissions, and other miscellaneous sources. For the fiscal year ended September 30, 2014, PBFs reported revenues of \$4.1 million, expenditures of \$4.0 million, and fund equity of \$4.2 million.

AUDIT OBJECTIVE

To assess the effectiveness of DOC's controls to ensure the accuracy and transparency of PBFs.

CONCLUSION

Effective.

FACTORS IMPACTING CONCLUSION

- DOC properly prepared PBF financial statements for the eight facilities we reviewed.
- DOC properly accounted for PBF fund-raisers in fiscal years 2012 and 2013.
- DOC properly accounted for vending machine commission transactions in PBFs.
- Reportable condition related to improved communication for PBF activities (see Finding #2).

DESCRIPTION

DOC maintains accounts on behalf of the prisoners in its facilities. Prisoner account transactions can be made for purchases of personal items, prisoner debt, medical copayments, prisoner payroll, monies received from nonprison sources, and refunds of vendor purchases. As of September 30, 2014, prisoner account balances totaled \$4.1 million. DOC incurred approximately \$729,000 of General Fund expenditures to maintain prisoner accounts for fiscal year 2014.

DOC operates three regional prisoner stores that stock items that can be purchased by prisoners for their personal use. DOC establishes store prices at a level to ensure that the stores are self-sufficient and that adequate funding is provided to PBFs. The salaries of DOC employees and prisoners working in the prisoner stores are charged to the prisoner store operations. For the fiscal year ended September 30, 2014, the prisoner stores reported revenues of \$22.5 million and expenditures of \$21.1 million and transferred the \$1.4 million net profit to the respective facilities' PBFs.

DOC maintains a PBF at each facility to provide services, supplies, and equipment for the direct benefit of the prisoners. PBFs receive revenues from the prisoner store operations, photography sales, vending machine commissions, and other miscellaneous sources. For the fiscal year ended September 30, 2014, PBFs reported revenues of \$4.1 million, expenditures of \$4.0 million, and fund equity of \$4.2 million.

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

To examine the operations and records of the Department of Corrections' prisoner accounts, prisoner store programs, and prisoner benefit funds. We conducted this performance audit* in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered the period October 1, 2011 through September 30, 2014.

METHODOLOGY

We conducted a preliminary survey of the operations of DOC's prisoner accounts, prisoner store programs, and PBFs to formulate a basis for defining the audit objectives and scope. During our preliminary survey, we:

- Interviewed DOC management and staff to obtain an understanding of the various operations.
- Reviewed applicable State laws and DOC policy directives.
- Analyzed prisoner accounts and reviewed related supporting documentation.
- Observed prisoner store operations and reviewed physical inventory sheets.
- Observed kiosks in several housing units.
- Reviewed prisoner store committee meeting minutes.
- Reviewed PBF committee meeting minutes and summaries of monthly financial statements.

OBJECTIVE #1

To assess the effectiveness of DOC's controls to ensure the accuracy of prisoner accounts.

To accomplish this objective, we:

- Interviewed DOC management and staff at seven judgmentally selected facilities to obtain an understanding of

* See glossary at end of report for definition.

the types of transactions processed, the controls over processing the transactions, and the reconciliation of the accounts.

- Analyzed the prisoner accounts in TAPS and identified significant transactions.
- Tested prisoner account transactions at the seven facilities to determine if the transactions were accurate and properly approved.
- Reviewed reconciliations of the prisoner accounts from TAPS to the Michigan Administrative Information Network* (MAIN).

OBJECTIVE #2

To assess DOC's compliance with laws, policies, and procedures related to prisoner accounts.

To accomplish this objective, we:

- Interviewed DOC management and staff at seven judgmentally selected facilities to determine the process for recording activity in prisoner accounts and notifying prisoners of account balances.
- Compared the account status with parolee and escheat lists to determine if the status was proper.
- Observed the printing and mailing of prisoner's account statements during seven facility visits.
- Compared the prisoner account information available through the kiosks in the housing units at three facilities with the prisoner account information in TAPS.
- Interviewed DOC staff to obtain an understanding of the processing of prisoner debt and reimbursement transactions.
- Verified that prisoner debt and reimbursement transactions were appropriate.
- Identified applicable prisoner accounts and determined if they were properly referred to the Department of Attorney General.

OBJECTIVE #3

To assess the effectiveness of DOC's controls to properly administer the prisoner stores.

* See glossary at end of report for definition.

To accomplish this objective, we:

- Interviewed DOC prisoner store staff at two judgmentally selected prisoner stores to determine their process for counting and maintaining inventory.
- Observed the physical inventory count and reconciliation process at the two prisoner stores.
- Analyzed physical inventory reports for all three prisoner stores to determine if the inventory was conducted and the results were followed up.
- Interviewed DOC staff at eight judgmentally selected facilities to understand their processes for preparing and distributing prisoner store financial statements and committee meeting minutes.
- Analyzed prisoner store financial statements and supporting documentation for appropriateness, including cost of goods sold, prisoner payroll, and storekeeper wages.
- Observed the posting of prisoner store committee meeting minutes at eight judgmentally selected facilities.
- Reviewed DOC's self-audit related to prisoner store program policy directives.

OBJECTIVE #4

To assess the effectiveness of DOC's controls to ensure the accuracy and transparency of PBFs.

To accomplish this objective, we:

- Interviewed DOC staff at eight judgmentally selected facilities to understand their processes for preparing and distributing PBF related information.
- Observed the posting of PBF expenditure summaries and committee meeting minutes at eight judgmentally selected facilities.
- Reviewed four judgmentally selected PBF fund-raising activities at three facilities to ensure that they were properly approved and resulting revenues were deposited.
- Reviewed the overall vending machine commission deposits for reasonableness.
- Verified that the prisoner store profits were distributed to all PBFs appropriately.

CONCLUSIONS

We based our conclusions on our audit efforts as described in the preceding paragraphs and the resulting reportable conditions* noted in the background, findings, and recommendations section. The reportable conditions are less severe than a material condition* but represent deficiencies in internal control*.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

AGENCY RESPONSES

Our audit report contains 2 findings and 2 corresponding recommendations. DOC's preliminary response indicates that it agrees with both recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, and Section 100) require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

PRIOR AUDIT FOLLOW-UP

We released our prior performance audit of the Prisoner Benefit Funds, Prisoner Store Programs, and Prisoner Accounts, Department of Corrections (47-380-01), in July 2002. DOC complied with 6 of the 7 prior audit recommendations. We rewrote 1 recommendation for inclusion in Finding #2 of this audit report.

We also followed up the 2 recommendations related to the PBF and prisoner store operations in our performance audit of the Saginaw Correctional Facility, Department of Corrections (471-0234-09), released in December 2009. DOC complied with 1 of these recommendations, and the other recommendation was no longer applicable.

* See glossary at end of report for definition.

GLOSSARY OF ABBREVIATIONS AND TERMS

DOC	Department of Corrections.
effectiveness	Success in achieving mission and goals.
internal control	The plan, policies, methods, and procedures adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.
kiosk	Computer terminal with a display screen that allows prisoners to purchase items from the prisoner stores and to review prisoner account information.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
Michigan Administrative Information Network (MAIN)	The State's automated administrative management system that supports accounting, purchasing, and other financial management activities.
PBF	prisoner benefit fund.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

reportable condition

A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.

Trust Accounting and Payroll System (TAPS)

The automated accounting system that maintains the prisoner's accounts and payroll data.

