

Performance Audit

State Correctional Institution at Chester

**Commonwealth of Pennsylvania
Department of Corrections**

July 1, 2005, to May 10, 2010



Performance Audit

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November 3, 2010

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Dear Governor Rendell:

This report contains the results of a performance audit of the State Correctional Institution at Chester of the Department of Corrections from July 1, 2005, to May 10, 2010. The audit was conducted under authority provided in Section 402 of The Fiscal Code and in accordance with *Government Auditing Standards* as issued by the Comptroller General of the United States.

The report details the audit objectives, scope, methodology, findings, and recommendations. The report notes that the institution did not effectively monitor its medical services contract. The report also notes that the institution did not effectively administer its work order system. Lastly, the institution's warehouse inventory controls continued to be deficient, as discussed in the two preceding audit reports. We discussed the contents of the report with the management of the institution, and all appropriate comments are reflected in the report.

We appreciate the cooperation extended to us by the management and staff of the State Correctional Institution at Chester and by others who provided assistance during the audit.

Sincerely,

JACK WAGNER
Auditor General

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Background Information

Background Information

Department of Corrections

The Pennsylvania General Assembly created the Pennsylvania Bureau of Corrections with the passage of Act 408 of July 29, 1953, P.L. 1428, Section I. In January 1981, responsibility for bureau operations moved from the authority of the Attorney General to the Office of General Counsel. On December 30, 1984, the Governor signed Act 245 of 1984,¹ elevating the Bureau of Corrections to cabinet level status as the Department of Corrections.

The mission of the Department of Corrections is to protect the public by confining persons committed to its custody in safe, secure facilities and to provide opportunities for inmates to acquire the skills and values necessary to become productive, law-abiding citizens.²

The Department of Corrections is responsible for all adult offenders serving state sentences of two years or more. As of May 10, 2010, it operated 26 correctional institutions, 1 motivational boot camp, 1 training academy, and 14 community pre-release centers throughout the Commonwealth of Pennsylvania.³

State Correctional Institution at Chester

The State Correctional Institution at Chester opened in April 1988 as a non-smoking, medium-security facility for adult male offenders. SCI Chester provides therapeutic services to inmates with drug and alcohol histories.⁴ The Commission on Accreditation for Corrections re-accredited SCI Chester as an adult correctional facility in January 2006.

SCI Chester is located in Delaware County, approximately three miles from the Philadelphia International Airport. The physical plant includes three multi-level housing units, an administration building, a program building, a visiting complex, and separate areas for dietary services, education, health services, laundry, and maintenance.

¹ 71 P.S. § 310.1.

² http://www.cor.state.pa.us/portal/server.pt/community/departement_of_corrections/4604/our_mission/716263, accessed May 10, 2010.

³ http://www.cor.state.pa.us/portal/server.pt/community/newsroom_press_office/5001/doc_history/584854, accessed May 10, 2010.

⁴ *Ibid.*

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The following schedule presents select unaudited SCI Chester operating statistics compiled by the Department of Corrections for the years ended June 30, 2006, 2007, 2008, and 2009:

| | Using Rounding | | | |
|---|-----------------------|--------------|--------------|--------------|
| | 2006 | 2007 | 2008 | 2009 |
| Operating expenses ⁵ | \$38,056,188 | \$40,030,693 | \$40,485,825 | \$43,446,727 |
| Inmate population at year-end | 1,184 | 1,146 | 1,201 | 1,289 |
| Inmate capacity at year-end | 1,150 | 1,150 | 1,150 | 1,200 |
| Percentage of capacity at year-end | 103.0% | 99.7% | 104.4% | 107.4% |
| Average monthly inmate population | 1,158 | 1,173 | 1,168 | 1,254 |
| Average cost per inmate per year ⁶ | \$32,864 | \$34,127 | \$34,663 | \$34,647 |

⁵ Operating expenses were recorded net of fixed assets, an amount that would normally be recovered as part of depreciation. In addition, regional level and indirect charges were not allocated to the totals reported here.

⁶ Average cost per inmate per year was calculated by dividing total operating expenses by the average monthly inmate population.

Objectives, Scope, and Methodology

Objectives, Scope, and Methodology

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.

We selected audit objectives, detailed in the body of the report, from the following general areas: fixed asset management, including a review of SCI Chester's accreditation; contract management, including an assessment of the medical contract monitoring; and expense management, including an evaluation of general expenses, purchases processed as automated transactions, and its maintenance work order system. In addition, we determined the status of the recommendations from the prior report. The specific audit objectives were:

- To evaluate the existence and efficacy of measures taken by SCI Chester to remedy any deficiencies noted in the most recent standards compliance audit. (Finding 1)
- To determine whether the medical services vendor provided services in accordance with the medical services contract provisions. (Finding 2)
- To analyze annual expenditure fluctuations to determine whether further testing is warranted. (Finding 3)
- To determine whether purchases processed as automated transactions were received, approved, and paid accurately. (Finding 4)
- To assess the adequacy of controls over SCI Chester's maintenance work order system. (Finding 5)

We also performed tests as part of, or in conjunction with, the current audit to determine the status of the implementation of the recommendations made during the prior audit. The prior audit included issues regarding warehouse inventory controls, procurement, fixed assets, and the Inmate General Welfare Fund.

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Objectives, Scope, and Methodology

The scope of the audit was from July 1, 2005, to May 10, 2010, unless indicated otherwise in the individual findings.

We reviewed applicable Commonwealth and Department of Corrections policies and procedures pertaining to the accreditation program,⁷ the American Correctional Association Manual of Accreditation Policy and Procedure,⁸ and facility maintenance.⁹

During the course of our audit work, we interviewed various Department of Corrections and facility management and staff including the assistant to the superintendent, health care administrator, the program manager for Prison Health Services, Inc., and a fiscal technician from the Department of Corrections' Bureau of Administration. We also interviewed the business manager, budget analyst, a representative from the Comptroller's Public Protection and Recreation Office, the facility maintenance managers, as well as a facility maintenance manager from the Department of Corrections' Bureau of Operations.

To evaluate the existence and efficacy of measures taken by SCI Chester to remedy any deficiencies noted in the most recent standards compliance audit, we examined the American Correctional Association and Commission on Accreditation for Corrections accreditation and visiting committee reports and associated correspondence for the audit conducted in August 2005; and examined SCI Chester's responses to the issues of non-compliance detailed in the aforementioned audit report.

To determine whether the vendor provided services in accordance with the medical services contract provisions, we reviewed the request for proposal for the medical services contract, as well as documentation for contract modifications, and compared employee time records from both the vendor and SCI Chester to vendor invoices for May 2006, January 2007, November 2007, and March 2008.

To analyze annual expenditure fluctuations to determine whether further testing is warranted, we reviewed expenditure reports for the fiscal years ended June 30, 2006, 2007, and 2008, and judgmentally selected and reviewed reports detailing specific expenditures for 27 of 145 commitment items.

⁷ Commonwealth of Pennsylvania, Department of Corrections, Policy Number 1.1.2, "Accreditation & Annual Operations Inspections," effective March 16, 2007.

⁸ www.aca.org, accessed July 10, 2008.

⁹ Commonwealth of Pennsylvania, Department of Corrections, Policy Number 10.2.1, "Facility Maintenance," effective October 10, 2005.

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Objectives, Scope, and Methodology

To determine whether SCI Chester purchases, processed as automated transactions, were received, approved, and accurately paid, we analyzed the supporting documentation associated with a statistical random sample of 41 of the 523 “KR” type transactions, which are for centralized direct vendor invoice payments, processed through the SAP R/3 Materials Management module between July 1, 2005, and June 30, 2008.

To assess the adequacy of controls over SCI Chester’s maintenance work order system, we examined the documentation associated with a randomly selected sample of 43 of the 9,494 work orders processed between July 1, 2005, and April 30, 2008.

To determine the status of the implementation of the recommendation made during the prior audit, we reviewed the Department of Corrections’ written response dated May 19, 2006, replying to the Auditor General’s report from June 1, 2004, to September 23, 2005. We also held discussions with appropriate institution personnel, and performed tests as part of, or in conjunction with the current audit.

Audit Results

Audit Results

Accreditation

The American Correctional Association and the Commission on Accreditation for Corrections are private, non-profit organizations that administer the only national accreditation program for all components of adult and juvenile corrections. The purpose of this voluntary accreditation program is to promote improvement in the management of correctional facilities through the ongoing development and revision of relevant, useful standards.¹⁰

Although the accreditation process is a voluntary program, it affords participating agencies the opportunity to evaluate their operations against national standards, to remedy deficiencies, and to upgrade the quality of programs and services. A major component of the accreditation process is the standards compliance audit conducted by a visiting committee appointed by the American Correctional Association. The purpose of this audit is to measure operations against Commission on Accreditation for Corrections standards based on documentation provided by the facility, facility tours, interviews with staff and inmates, and reviews with facility administrators. The audit report submitted to the Commission on Accreditation for Corrections describes audit activities and findings and examines issues or concerns that may affect the quality of life and services in an agency or facility. The visiting committee narrative report also includes comments from interviews conducted with inmates and staff, as well as a detailed explanation of all non-compliant and inapplicable standards.¹¹

Finding 1 – SCI Chester responded appropriately to the issues noted in the most recent standards compliance audit.

In January 2006, the American Correctional Association and the Commission on Accreditation for Corrections awarded a three-year accreditation to SCI Chester as a result of the audit conducted in August 2005. According to the visiting committee report, SCI Chester complied with 100 percent of the 59 applicable mandatory standards and 443, or

¹⁰ Commonwealth of Pennsylvania, Department of Corrections, Policy Number 1.1.2, “Accreditation & Annual Operations Inspections,” effective March 16, 2007.

¹¹ www.aca.org, accessed July 10, 2008.

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99.6 percent, of the 445 applicable non-mandatory standards. The Commission on Accreditation for Corrections granted SCI Chester discretionary compliance regarding one non-mandatory standard and denied SCI Chester's appeal for the other finding.

The Commission on Accreditation for Corrections granted discretionary compliance to SCI Chester regarding an issue of statewide noncompliance. SCI Chester had policy that prohibited some programs and privileges for inmates in disciplinary detention over 60 days. SCI Chester indicated that the Department of Corrections directed this practice/policy.

The Commission on Accreditation for Corrections also reported that SCI Chester's stored shelf goods were not maintained at 45 to 80 degrees Fahrenheit. SCI Chester appealed the visiting committee's finding of noncompliance. At the time of the accreditation audit in August 2005, the institution was in the process of implementing a plan of action to install a turbine fan system to control the environment and reduce heat. SCI Chester completed the project in February 2006. In the panel action report dated January 2006, the Commission on Accreditation for Corrections denied the appeal but noted that SCI Chester's plan of action was acceptable.

Medical Services Contract

The Department of Corrections provides general health care services to inmates through a statewide contract between the Department of Corrections and Prison Health Services, Inc., hereinafter referred to as PHS. The contract, originally effective for five years until August 13, 2008, requires PHS to furnish minimum coverage for physician, physician assistant, and nurse services. The contract stipulates that compensation to the provider be based on unit prices for actual hours of service. Although the contract permits PHS to provide some of the medical services via telemedicine, the contract states that the vendor must document appropriate telemedicine hours. In December 2007, the Department and PHS agreed to extend the contract five additional years until August 31, 2013.

SCI Chester's health care administrator monitors the medical contract to ensure that inmates receive adequate medical care and that the vendor meets the contracted staffing levels.

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Finding 2 – Employee time records did not match the hours billed by the medical services vendor.

The review of vendor invoices and the associated employee time records for May 2006, January 2007, November 2007, and March 2008 disclosed that SCI Chester did not effectively monitor its payments to PHS for medical services. More specifically, the medical service hours billed by PHS exceeded the medical service hours documented on the vendor’s bi-weekly employee time sheets and SCI Chester’s employee sign in/out sheets by 544.75 hours. SCI Chester paid PHS for 544.75 service hours, although employee time records did not support the amount of hours. The dollar value of these 544.75 service hours totaled approximately \$15,370, as detailed in the following chart:

March 2008

| Position | Billed Hours | Hours on Time Records | Difference | Hourly Rate | Unsupported Dollar Amount |
|----------------------------|---------------------|------------------------------|-------------------|--------------------|----------------------------------|
| Clinical Coordinator | 153.00 | 74.00 | 79.00 | \$ 21.82 | \$1,723.78 |
| Medical Assistant | 71.50 | 15.50 | 56.00 | 22.24 | 1,245.44 |
| Medical Records Technician | 7.00 | 0.00 | 7.00 | 30.44 | 213.08 |
| Licensed Practical Nurse | 155.00 | 151.00 | 4.00 | 29.53 | 118.12 |
| Registered Nurse | 481.75 | 421.50 | 60.25 | 39.34 | 2,370.24 |
| Director of Nursing | 48.15 | 22.40 | 25.75 | 44.69 | 1,150.77 |
| Physician | <u>9.00</u> | <u>8.00</u> | <u>1.00</u> | 114.20 | <u>114.20</u> |
| Total | 925.40 | 692.40 | 233.00 | | \$6,935.63 |

November 2007

| Position | Billed Hours | Hours on Time Records | Difference | Hourly Rate | Unsupported Dollar Amount |
|----------------------------|---------------------|------------------------------|-------------------|--------------------|----------------------------------|
| Clinical Coordinator | 43.00 | 0.00 | 43.00 | \$20.22 | \$ 869.46 |
| Medical Assistant | 90.00 | 55.50 | 34.50 | 20.56 | 709.32 |
| Medical Records Assistant | 41.00 | 0.00 | 41.00 | 20.55 | 842.55 |
| Medical Records Technician | 33.75 | 0.00 | 33.75 | 28.14 | 949.73 |
| Registered Nurse | <u>211.75</u> | <u>210.50</u> | <u>1.25</u> | 36.37 | <u>45.46</u> |
| Total | 419.50 | 266.00 | 153.50 | | \$3,416.52 |

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January 2007

| Position | Billed Hours | Hours on Time Records | Difference | Hourly Rate | Unsupported Dollar Amount |
|----------------------------|---------------------|------------------------------|-------------------|--------------------|----------------------------------|
| Medical Records Assistant | 345.75 | 316.50 | 29.25 | \$ 20.55 | \$ 601.09 |
| Medical Records Technician | 15.00 | 0.00 | 15.00 | 28.14 | 422.10 |
| Licensed Practical Nurse | 233.00 | 229.00 | 4.00 | 27.12 | 108.48 |
| Registered Nurse | 349.00 | 281.25 | 67.75 | 36.49 | 2,472.20 |
| Director of Nursing | 47.50 | 36.75 | 10.75 | 41.32 | 444.19 |
| Physician | <u>1.50</u> | <u>0.00</u> | <u>1.50</u> | 105.55 | <u>158.33</u> |
| Total | 991.75 | 863.50 | 128.25 | | \$4,206.39 |

May 2006

| Position | Billed Hours | Hours on Time Records | Difference | Hourly Rate | Unsupported Dollar Amount |
|--------------------------|---------------------|------------------------------|-------------------|--------------------|----------------------------------|
| Medical Assistant | 159.75 | 159.00 | 0.75 | \$ 20.56 | \$ 15.42 |
| Licensed Practical Nurse | <u>169.75</u> | <u>140.50</u> | <u>29.25</u> | 27.12 | <u>793.26</u> |
| Total | 329.50 | 299.50 | 30.00 | | \$ 808.68 |

Four-Month Summary Total 2,666.15 2,121.40 544.75 **\$15,367.22**

The medical services contract stipulates that compensation to the provider include a base fee that reflects unit prices for actual hours of service. The contract details the minimum number of hours to be provided by the vendor and the pay rate for each category of employee.

A representative from PHS attributed the difference between the billed hours and the hours documented on the time records to contracted services provided off the physical site of the institution. For example, physicians provided allowable services through the telemedicine program. Although the contract permits PHS to provide some of the medical services via telemedicine, the contract states that the vendor must document appropriate telemedicine hours. PHS did not maintain records that documented the specific dates, hours, and nature of these off-site medical services. In the absence of support documentation, SCI Chester could not ensure that the contracted staff provided the required number of service hours.

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Recommendations:

1. SCI Chester should require the contracted vendor to document all contracted employee service hours, including those provided off the physical site of the institution.

2. In addition, SCI Chester should review all medical vendor invoices to verify agreement between the billed service hours and the service hours on official time records and other supporting documents. If the billed hours and documented service hours do not agree, SCI Chester should adjust payments to the vendor in accordance with the terms of the medical contract.

Comments of SCI Chester Management:

The Department agrees with this recommendation. SCI Chester has reviewed and updated the procedures used to verify monthly billings by PHS. The billings are now verified for agreement between PHS listed hours, and official time records of the institution. In addition, any and all hours listed for payment for employees of PHS, both on institution grounds and off site are verified before request for payment is sent.

Any discrepancy in hours billed versus hours worked will be credited as adjustments to the contract.

Expenditures

The Department of Corrections authorizes an annual budget for SCI Chester to operate its facility. The budget classifies expenditures into commitment items and line items. The expenditures include transactions for salaries, utilities, and equipment, as well as for office, laboratory, and maintenance supplies. During the fiscal years ended June 30, 2006, 2007, and 2008, SCI Chester expended approximately \$38.1 million, \$40.1 million, and \$41.7 million, respectively.

Audit Results

Finding 3 – SCI Chester adequately explained and documented expenditure fluctuations.

SCI Chester management provided adequate justification for the fluctuations in expenditures for all 27 of the commitment items selected for testing. Justifications included contractual increases in personnel costs, inflation, a change in coding to commitment items, and cost saving measures implemented for the purchase of medical, mental, and dental services. Accordingly, we concluded that further audit testing was not warranted.

Materials Management

SCI Chester purchases goods and services using software named SAP R/3 Materials Management module. Certain transactions (classified as “MIRO”) in SAP R/3 involve a three-way match of the purchase order, receiving report, and invoice. The SAP system immediately processes these transactions with an electronic three-way match. Certain other transactions in SAP R/3 (designated as “FB60”) do not involve an electronic three-way match. These transactions require only an approved invoice prior to payment processing through automated SAP R/3 system. These transactions, primarily processed by the comptroller’s office, include vendor invoice payments, advancement account transactions, and one-time vendor payments. These transactions are sub-categorized as document type “KR” for centralized direct vendor invoice payments and document type “ZA” for advancement account payments. Vendor invoices are often mailed directly to the comptroller for approval and payment, while others are mailed to the agency for approval and then forwarded to the comptroller for payment.

Finding 4 – SCI Chester processed direct vendor invoice payment transactions correctly.

The review of the supporting documentation for 41 sampled transactions disclosed that the KR document type expenditures were processed correctly. SCI Chester received the purchased goods and services and approved the associated payments. The invoice, supporting documentation, and payment amounts agreed for each transaction selected for testing.

Audit Results

Maintenance

SCI Chester houses over 1,100 inmates and employs over 370 workers, including 6 full-time maintenance staff. The physical plant includes three multi-level housing units, an administration building, a program building, a visiting complex, and separate areas for dietary services, education, health services, laundry, and maintenance.

SCI Chester's maintenance department is responsible for maintaining the buildings, grounds, and equipment. Between July 1, 2005, and April 30, 2008, SCI Chester's maintenance purchases totaled approximately \$1,187,000. Since May 2006, SCI Chester has utilized computer software to administer its work order system. The software enables the institution to request, prioritize, assign, log, and track work orders electronically.

Finding 5 – SCI Chester did not comply with maintenance guidelines and did not administer its work order system effectively.

The Department of Corrections has developed comprehensive policies and procedures for the request, approval, priority assignment, and completion of work orders. According to policy, the department staff must initiate the work orders, which are then signed by the department head, and forwarded to the maintenance department for review, evaluation, disposition, approval, assignment of a priority code, and scheduling. The policy also specifies that staff must only use the standard maintenance work order form or its electronic equivalent to request maintenance work.¹²

The maintenance manual requires the work orders to be monitored, as follows:

*...As work order assignments are completed, it shall be the responsibility of each maintenance staff member to complete the back of the DC-437 listing time and materials used. As work order assignments are completed, the DC-437 is to be signed and dated by the maintenance personnel completing the work and returned to his/her immediate supervisor. The supervisor shall inspect the completed work, sign the DC-437, and forward the DC-437 to the Facility Maintenance Manager's office for review and administrative tracking...*¹³

¹² Commonwealth of Pennsylvania, Department of Corrections, Policy Number 10.2.1, "Facility Maintenance," effective October 10, 2005.

¹³ *Ibid.*

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The analysis of 43 work orders completed between July 1, 2005, and April 30, 2008, revealed that SCI Chester management did not enforce the guidelines that required maintenance employees to document work order data. The closed work orders did not include the following information:

- The facility did not assign a priority code to 42 of the 43 sampled work orders.
- Seventeen of the 43 sampled work orders did not document the number of employee or inmate labor hours.
- Six of the 43 sampled work orders did not document the completion date.

Management did not always monitor work orders to ensure timely completion or compliance with Department of Corrections policy. SCI Chester completed the 37 closed work orders with documented completion dates an average of 30 days after request. Recorded completion dates ranged from the date of request to 317 days after request. Because the facility did not assign priority codes to any of the selected work orders with documented completion dates, we were unable to assess the level of urgency and, thus, the overall timeliness of work order completion.

A well-managed work order system supports efficient and effective maintenance operations essential to a safe prison environment. Management's failure to monitor work orders consistently increased the risk that maintenance employees delayed or overlooked necessary maintenance work. The failure to perform necessary repairs timely could result in more costly maintenance work or in dangers to the safety or security of inmates, employees, or visitors in the future.

The documentation of job specifics also supports the efficiency and effectiveness of maintenance operations. When maintenance employees document the number of employee or inmate labor hours, management is able to evaluate the propriety of labor usage and then to take any necessary corrective action to control future costs.

Recommendation:

3. SCI Chester's management should enforce Department of Corrections policy and procedures requiring maintenance employees to document job priorities, completion dates, and labor hours and costs. Management should monitor work orders consistently to ensure timely completion and compliance to policy.

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Comments of SCI Chester Management:

The Department agrees with this finding. Chester staff has identified all work orders that are completed, but still listed as open on the work order system, and has appropriately noted the repairs, and closed the work orders. Chester staff are prioritizing new work orders, and management staff are monitoring the work order system for the completion of work and the notification of completed work. Chester management are reviewing the policy and procedures for documenting job priorities, completion dates and cost with staff, and will continue to monitor the work orders to ensure timely completion of the work, and adherence to Department policy and procedure.

Status of Prior Audit Findings and Recommendations

Status of Prior Audit Findings and Recommendations

The following is a summary of the findings and recommendations presented in our audit report for July 1, 2003, to September 23, 2005, along with a description of SCI Chester's disposition of each recommendation. One or more of the following procedures determined the status of the recommendations:

Prior Finding 1 – SCI Chester continued to have poor control over warehouse inventory, a condition which could lead to undetected theft or fraud. SCI Chester did not correctly utilize the SAP inventory system to establish reorder points for food and supplies. (Unresolved)

The two preceding audits reported that SCI Chester's warehouse inventory controls were deficient. The prior audit reported that SCI Chester did not fully utilize the SAP software to control its warehouse inventory. The institution did not establish automatic reorder points or process stock transfer orders consistently. Furthermore, SCI Chester did not conduct annual physical inventories or regular independent spot-checks of warehouse items. SCI Chester's warehouse personnel, who had routine access to the warehouse inventory, maintained all inventory records and prepared adjustments to those records in the absence of independent approval. Accordingly, the audit disclosed differences between our physical count and the recorded balances on hand for 22 of 25 randomly sampled warehouse items.

We recommended that SCI Chester management fully utilize the SAP inventory system by establishing automatic reorder points and ensuring the consistent input of stock transfer orders. We also recommended that SCI Chester's business office access SAP inventory records, conduct monthly spot-checks, and perform periodic inventories of all items. We recommended that SCI Chester investigate the causes of any resultant variances between the physical counts and the recorded balances on hand. Finally, we recommended that SCI Chester management ensure that warehouse personnel do not adjust inventory records in the absence of proper approval from the business office.

Status:

To follow up on the inventory control deficiencies noted in the prior audit report, we interviewed SCI Chester's warehouse manager, food service manager, and business manager, as well as a senior purchasing agent from the Department of Corrections'

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Status of Prior Audit Findings and Recommendations

Bureau of Administration. We also reviewed Department of Corrections policy and procedures governing inventory management.¹⁴ Finally, we compared the perpetual inventory records for a random sample of 67 of 451 warehouse items to physical counts performed on July 15, 2008.

The current audit disclosed that SCI Chester did not effectively implement the prior report's recommendations. Although SCI Chester management indicated that the facility conducted annual physical inventories and routine spot-checks of warehouse stock items, the facility did not provide documentation to substantiate this assertion. According to management, only the warehouse manager prepared electronic adjustments to the inventory records; however, personnel independent of warehouse operations (such as business office staff) did not review and approve these adjustments. Additionally, SCI Chester did not establish automatic reorder points or consistently process stock transfer orders in the SAP system. Our physical count of 67 randomly sampled items on July 15, 2008, disclosed differences from the electronically recorded balance on hand for 24 items.

The Department of Corrections fiscal administration policy states the following:

...Physical inventories shall be conducted...at least annually for warehouses... Warehouse inventories are to be maintained in Systems Application Products (SAP) unless the Bureau of Administration provides an exception.¹⁵

The SAP inventory system is designed to track inventory items from purchase to receipt at the warehouse to distribution within the institution. When the institution receives and stores each ordered item in the warehouse, warehouse staff electronically enter the receipt into the SAP system. When the facility removes items from the warehouse, SCI Chester must prepare a stock transfer order to reduce the electronically recorded balance on hand. The SAP system also provides for reorder points. When fully utilized, the SAP system provides management with the tools to ensure that the institution maintains necessary supplies at sufficient levels.

SCI Chester must accurately maintain its inventory records in order to safeguard its supplies. Failure to accurately account for warehouse items may lead to unnecessary

¹⁴Commonwealth of Pennsylvania, Department of Corrections, Policy Number 3.1.1, "Fiscal Administration," effective November 20, 2007.

¹⁵*Ibid.*

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Status of Prior Audit Findings and Recommendations

purchases, overstocked items, or shortages of critical items. Furthermore, inaccurate records could allow abuse and theft to go unnoticed. The failure to separate custodial and inventory adjustment responsibilities increases the potential for fraud, waste, and/or errors undetected by management.

Recommendation:

4. We again recommend that SCI Chester implement and enforce internal control policies and procedures to ensure that its warehouse records are maintained accurately. Business office personnel should conduct (and maintain the documentation for) annual physical inventories and monthly spot checks of warehouse stock items. The facility should investigate any variances between these counts and inventory records and then make the necessary and independently approved adjustments to the inventory records. Finally, SCI Chester management should ensure the consistent use of stock transfer orders and reorder points in the SAP inventory system.

Comments of SCI Chester Management:

The Department agrees with this finding. While SCI Chester did conduct periodic reviews of inventory, there was no established record of these reviews. A log has been created and is in place. Any variances are noted and adjustments made after approval. Stock transports are in use, and guidelines are in place to ensure that the commodities are not delivered to the departments until the stock transports are completed. Reorder points are being developed at SCI Chester for inventory items.

Prior Finding 3 – SCI Chester did not adequately review advancement account checks or the SAP roles assigned to its employees, conditions which created internal control weaknesses in the procurement function. In addition, purchasing card limits were excessive. (Resolved)

The prior audit reported that SCI Chester did not adequately review its advancement account disbursements. The facility did not retain documentation that management reviewed or approved advancement account checks prior to mailing. Additionally, SCI Chester did not reconcile the advancement account check register with the supporting documentation for purchases. The prior audit also noted that one of SCI Chester's two purchasing agents was assigned the roles of purchaser, receiver, and requisitioner in the integrated enterprise system, hereinafter referred to as IES. These incompatible role assignments created an

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internal control weakness. Finally, the prior audit revealed that SCI Chester's purchasing cards had monthly expenditure limits substantially greater than the actual monthly expenditures. Each of five cards had a credit limit of \$150,000. However, the highest amount of purchases processed in any one month between January and June 2005 was far below the limit.

We recommended that the business manager review all advancement account supporting documentation, sign and retain copies of all remittance advices to evidence review, and then compare the advancement account check register to the associated remittance advices each month to ensure that unauthorized checks are not prepared. We also recommended that SCI Chester's human resource coordinator periodically review employee role-mapping duties to ensure that employees are not assigned incompatible duties. Finally, we recommended that SCI Chester management request that the Department of Corrections lower the monthly credit limits on the purchasing cards to reflect estimated monthly expenditures.

Status:

To follow up on the deficiencies noted in the prior report, we interviewed SCI Chester's business manager, budget analyst, training coordinator, and senior purchasing agent, as well as a human resource analyst from the Department of Corrections and accounting personnel from the comptroller's office. We also reviewed Department of Corrections policy and procedures regarding the administration of advancement accounts,¹⁶ Commonwealth directives regarding procurement role assignments, security, internal control maintenance,¹⁷ and the master roles document on the IES web site.¹⁸ Finally, we examined the supporting documentation for 21 of 385 advancement account disbursements transacted between July 1, 2005, and April 30, 2008, as well as summaries of the IES roles assigned to 35 employees in SCI Chester's business office.

The current audit disclosed that SCI Chester substantially and eventually complied with the prior report's recommendations regarding the advancement account. We chose a non-statistical sample of 21 advancement account transactions for detailed testing. The audit of the 21 transactions disclosed that the business manager

¹⁶ Commonwealth of Pennsylvania, Department of Corrections, Policy Number 3.1.1, "Fiscal Administration," effective November 20, 2007.

¹⁷ Commonwealth of Pennsylvania, Governor's Office, Management Directive 205.37, "Role Assignment, Security, and Internal Control Maintenance," dated June 13, 2005.

¹⁸ http://oaess.state.pa.us/MasterRolesDoc/Procurement_Roles.htm, and http://oaess.state.pa.us/MasterRolesDoc/SRM_CCM_Roles.htm, accessed May 28, 2008.

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reviewed and documented approval of the advancement account checks and supporting documentation prior to releasing the checks for payment. Due to unfamiliarity with the Department of Corrections' advancement account system, the business manager did not reconcile advancement account payments to the check register between July 1, 2005, and April 30, 2008. However, at our suggestion and instruction, SCI Chester personnel printed the check register for reconciliation in July 2008.

The current audit revealed that management also eventually implemented the prior report's recommendation regarding IES role assignments. As noted in the prior audit, management removed the incompatible requisitioner and receiver roles from one purchasing agent in September 2005. Since then, the Commonwealth and SCI Chester implemented the Supplier Relationship Management component of IES and assigned new conflicting receiver and requisitioner roles to both of SCI Chester's purchasing agents. After we informed SCI Chester management of the existence of new incompatible role assignments, SCI Chester management notified human resource personnel in the Department of Corrections. The Department of Corrections then removed the receiver and requisitioner roles from both purchasing agents on September 5, 2008.

Finally, the current audit disclosed that the Department of Corrections and SCI Chester complied with the prior report's recommendation regarding purchasing card credit limits. As of July 2007, SCI Chester had only two purchasing cards with a combined monthly credit limit of \$300,000. Additionally, SCI Chester implemented controls to safeguard against the unauthorized use of the purchasing cards. According to SCI Chester management, business office personnel reconciled purchasing card statements to supporting documentation on a monthly basis.

Because SCI Chester timely implemented the prior report's recommendation regarding purchasing card credit limits and eventually implemented the prior report's recommendations regarding the advancement account and IES procurement role assignments, we consider the procurement issues noted in the prior audit to be resolved.

Prior Finding 4 – SCI Chester did not maintain a fixed asset ledger. (Unresolved)

The prior audit reported that SCI Chester did not have an adequate ledger to help control and account for fixed assets. Although SCI Chester prepared a fixed asset listing of vehicles,

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microwaves, ovens, and cameras, the facility did not record the associated costs, tag numbers, or locations. Additionally, SCI Chester did not conduct an annual physical inventory of its fixed assets. However, the facility did establish sufficient property controls over computers and peripherals.

We recommended that SCI Chester management develop a fixed asset ledger that includes all assets over \$5,000 and document the associated acquisition dates, costs, tag numbers, and locations. We also recommended that management perform a physical fixed asset inventory and review fixed asset purchases to ensure that the ledger is current and accurate.

Status:

To follow up on the deficiencies noted in the prior report, we interviewed SCI Chester's budget analyst and purchasing agent, as well as the Department of Corrections' property officer. We also reviewed Commonwealth policy and procedures regarding fixed asset accounting and reporting.¹⁹ Finally, we examined SCI Chester's list of fixed assets, as well as expenditure reports that detailed fixed asset purchases during the fiscal years ended June 30, 2006, 2007, and 2008.

The current audit disclosed that SCI Chester only partially complied with the prior report's recommendations. SCI Chester developed a list of assets valued at \$5,000 or greater. The facility documented the year of acquisition and description for all assets on the list, as well as the specific acquisition date, cost, and purchase order number associated with those fixed assets purchased since May 7, 2003. SCI Chester did not tag any of the listed items with a property control number.

In August 2008, the Department of Corrections' property officer indicated that the Department of Corrections was in the process of compiling a comprehensive inventory of the fixed assets at all of the Commonwealth's correctional institutions. When the Department of Corrections has completed this process, it planned to distribute tag numbers to the institutions. We determined that the facility had not conducted a physical inventory of its fixed assets as of October 2008.

Because the development of SCI Chester's fixed asset ledger was an ongoing project as of the close of audit fieldwork, we will review this issue during the next audit to ensure that SCI Chester updated its fixed asset ledger, tagged its fixed assets, and conducted annual physical inventories of its fixed assets.

¹⁹ Commonwealth of Pennsylvania, Governor's Office, Management Directive 310.14, "General Capital Asset and Other Fixed Asset Accounting and Reporting in SAP," dated February 3, 2003.

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Prior Finding 5 – Inmate General Welfare Fund weaknesses included inaccurate bank reconciliations, untimely check deposits, and unnecessary service charges. (Resolved)

The prior audit reported that SCI Chester did not accurately reconcile the Inmate General Welfare Fund checking account to the bank statements. SCI Chester personnel prepared financial statement balance sheets as of the last Friday of each month. However, the bank statement cutoff date was the last day of each month. Thus, the statement dates of the bank and the fund often differed. Additionally, SCI Chester did not always deposit fund checks timely. At times, SCI Chester held checks from two to three weeks before depositing them. Finally, during the fiscal year ended June 30, 2005, the fund incurred \$3,280 in service charges, while its average monthly bank balance was greater than \$200,000.

We recommended that SCI Chester implement procedures to ensure that monthly financial statement balances are accurately reconciled to bank statements. We recommended that SCI Chester obtain bank statements with dates that coincide with the financial statement dates. Additionally, we recommended that SCI Chester ensure that fund deposits are timely and that the fund does not incur service charges.

Status:

To follow up on the deficiencies noted in the prior report, we interviewed the business manager and Inmate General Welfare Fund custodian, as well as reviewed Department of Corrections policy regarding administration of the fund.²⁰ The auditors also examined the bank statements and associated reconciliation documents for the fiscal year ended June 30, 2008.

The current audit disclosed that SCI Chester complied with the prior report's recommendations. During the fiscal year ended June 30, 2008, SCI Chester reconciled the fund checking account to bank statements and made timely bank deposits. SCI Chester reduced the service charges from \$3,280 for the fiscal year ended June 30, 2005, to \$1,295 for the fiscal year ended June 30, 2008. The average monthly balance exceeded \$200,000 during both reviewed fiscal years. According to management personnel, SCI Chester will continue to investigate other banks to determine whether the facility can further reduce the bank service charges on its Inmate General Welfare Fund.

²⁰ Commonwealth of Pennsylvania, Department of Corrections, Policy Number 3.1.1, "Fiscal Administration," effective November 20, 2007.

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