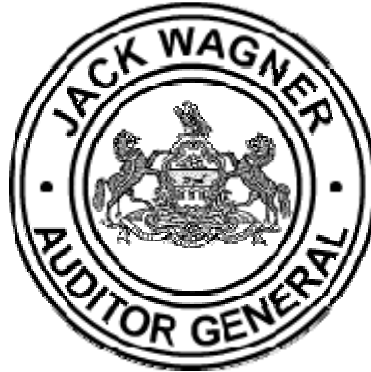


Commonwealth of Pennsylvania
Department of Corrections
State Correctional Institution at Houtzdale
July 1, 2003, to February 24, 2006
Performance Audit



Commonwealth of Pennsylvania
Department of Corrections
State Correctional Institution at Houtzdale
July 1, 2003, to February 24, 2006
Performance Audit

November 13, 2006

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

Dear Governor Rendell:

This report contains the results of a performance audit of the State Correctional Institution at Houtzdale of the Department of Corrections from July 1, 2003, to February 24, 2006. 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 identified that the institution did not adequately monitor its pharmacy contract. The report also notes that the institution did not comply with Department of Corrections maintenance guidelines or effectively administer its work order system. Finally, the report identified weaknesses in the segregation of duties in inventory management through the SAP R/3 system. The contents of the report were discussed with the officials 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 Houtzdale and by others who provided assistance during the audit.

Sincerely,

JACK WAGNER
Auditor General

Table of Contents

	Page
Background Information	1
Department of Corrections	1
State Correctional Institution at Houtzdale	1
Objectives, Scope, and Methodology	3
Current Audit Findings.....	6
Contract Management	6
Finding 1 – Houtzdale awarded the six reviewed contracts in compliance with Commonwealth procurement guidelines and effectively monitored five of the six sampled contracts.	6
Finding 2 – Houtzdale did not monitor its pharmacy invoices adequately.....	7
Travel Expense	9
Finding 3 – Houtzdale complied with guidelines and implemented effective controls over travel expenses.....	9
Payroll	10
Finding 4 – Houtzdale processed its payroll through the SAP R/3 Payroll module accurately.....	10
Maintenance Costs	11
Finding 5 – Houtzdale did not administer its work order system effectively and work orders were not always completed in a timely manner.	11
Inventory Management	14
Finding 6 – Houtzdale improved physical inventory controls over the warehouse inventory.....	14
Finding 7 – Houtzdale did not segregate SAP R/3 warehouse personnel roles adequately.....	14
Status of Prior Audit Findings and Recommendations.....	16
Inmate Restitution and Other Court-Ordered Obligations	16
Prior Finding I–1 – Houtzdale did not collect restitution, fines, or costs for some court orders issued after October 16, 1998.	16
Prior Finding I–2 – Restitution, fines, or costs were not deducted for some court orders issued prior to October 16, 1998.	17
Inventory	18
Prior Finding III–1 – Warehouse personnel were assigned incompatible duties.....	18

Table of Contents

	Page
Audit Report Distribution List	19

Background Information

Department of Corrections

Section I of Act 408 of 1953 established the Pennsylvania Bureau of Corrections. In January 1981, responsibility for bureau operations was removed from the authority of the Attorney General and transferred to the Office of the General Counsel. On December 30, 1984, the Governor signed Act 245 of 1984,¹ which elevated the Bureau of Corrections to cabinet level status as the Department of Corrections.

The main purpose and goal of Corrections is to maintain a safe and secure environment for both incarcerated offenders and the staff responsible for them. In addition, Corrections believes that every inmate should have an opportunity to be involved in a program of self-improvement.

Corrections is responsible for all adult offenders serving state sentences of two years or more. As of June 30, 2005, it operated 25 correctional institutions, 1 regional correctional facility, 1 motivational boot camp, a training academy, and 14 community pre-release centers throughout the Commonwealth of Pennsylvania.

State Correctional Institution at Houtzdale

The State Correctional Institution at Houtzdale opened in January 1996 and is a medium security facility for adult male offenders. Houtzdale is located in the Township of Woodward, Clearfield County, approximately 40 miles west of State College and encompasses approximately 273 acres of land. About 65 acres are located inside a double 14-foot fence topped with razor ribbon wire and a microwave detection system. Within the fence are ten housing units, categorized according to the security level required by the inmates in residence. In addition, a food service complex, a complex for maintenance and industries, a chapel, a complex for education and activities, laundry facilities, an inmate commissary, and an eighteen-bed infirmary are also situated within the fence. The institution's warehouse, boiler plant, water storage tank, and weapons training site are located just outside the fence perimeter.

Houtzdale's mission 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 while respecting the rights of crime victims.

¹ 71 P.S. § 310.1.

Background Information

The following schedule presents select unaudited Houtzdale operating statistics compiled by Corrections for the years ended June 30, 2004, and 2005:

	2004	2005
Operating expenditures (rounded in thousands) ²		
State	\$49,855	\$47,366
Federal	<u>57</u>	<u>92</u>
Total	<u>\$49,912</u>	<u>\$47,458</u>
Inmate population at year-end	2,249	2,264
Capacity at year-end	1,900	1,900
Percentage of capacity at year-end	118.4%	119.2%
Average monthly inmate population	2,336	2,255
Average cost per inmate ³	\$21,366	\$21,046

² Operating expenditures were recorded net of fixed asset costs, an amount that would normally be charged as part of depreciation expense. Additionally, operating expenditures are net of annual lease costs.

³ Average cost was calculated by dividing the operating expenditures by the average monthly inmate population.

Objectives, Scope, and Methodology

The objectives for the current audit were selected from five areas: contract management; expense management, including travel, payroll, and maintenance costs; and inventory management. The audit also included an update on the status of prior audit findings and recommendations regarding inmate restitution and inventory controls. The specific objectives for this audit were:

- To assess Houtzdale's compliance with Commonwealth guidelines and to evaluate the efficacy of the institution's monitoring of service contracts (Finding 1 and 2).
- To determine whether Houtzdale employee travel and associated reimbursements complied with Commonwealth and Corrections policies and procedures, as well as to assess the adequacy of relevant internal controls (Finding 3).
- To determine whether Houtzdale accurately processed its payroll through the SAP R/3 system (Finding 4).
- To determine whether Houtzdale complied with Corrections' maintenance policies and procedures and to assess the adequacy of the institution's work order administration (Finding 5).
- To evaluate the corrective actions over warehouse inventory controls noted in the prior audit report (Finding 6 and 7).
- To determine the status of management's corrective actions in the areas of collection of inmate restitution, fines, or costs imposed by court orders and the assignment of incompatible duties to warehouse personnel.

The scope of the current audit was from July 1, 2003, to February 24, 2006, unless indicated otherwise in the body of the individual findings.

Objectives, Scope, and Methodology

To accomplish these objectives, the auditors reviewed and analyzed pertinent regulations, policies, and guidelines including the Commonwealth's procurement manual,⁴ travel and subsistence allowances,⁵ corporate card program,⁶ and SAP R/3 role mapping guidelines.⁷ The auditors also reviewed Corrections and Houtzdale policies and procedures for inventory management,⁸ travel guidelines,⁹ human resources and labor relations,¹⁰ and facility maintenance.¹¹ In addition, auditors reviewed the applicable union agreements for payroll rates and benefits.¹² Finally, they reviewed Houtzdale's written response, dated December 10, 2004, replying to the Auditor General's prior audit report.

Auditors also interviewed various facility management and staff, including personnel in the Houtzdale business office, maintenance department, personnel department, human resources department, and warehouse, as well as the business manager and the Correctional Health Care Administrator. They also held discussions with Houtzdale management and staff to obtain an updated understanding of the progress in implementing the prior audit's recommendations and other corrective action to resolve the prior findings.

For completion of the audit objectives, auditors selected six service purchase contracts for detailed testing. The six reviewed contracts included separate contracts for pharmacy, mental health services, medical services, and three equipment maintenance contracts.

Auditors also analyzed the supporting documentation for travel expenses and reconciled the hotel invoices to the corresponding approved travel requests and travel expense statements. The auditors made comparisons of wage rates and leave balances between the January 17, 2004, payroll in the old ICS payroll system with the January 18, 2004, SAP R/3 Payroll module reports. They also compared the leave slips, overtime records, shift

⁴ Commonwealth of Pennsylvania Governor's Office, Policy Number M215.3 Revision No. 4, "Field Procurement Handbook," April 17, 2003.

⁵ Commonwealth of Pennsylvania Governor's Office, Management Directive Number 230.10, "Travel and Subsistence Allowances," November 1, 2000.

⁶ Commonwealth of Pennsylvania Governor's Office, Management Directive Number 230.13, "Commonwealth Corporate Card Program," November 2, 2000.

⁷ <http://www.ies.state.pa.us/imaginepa/lib/imaginepa/Allroles.html> View Date: October 21, 2005.

⁸ Commonwealth of Pennsylvania Department of Corrections, Policy Number 3.1.1, "Fiscal Administration," June 16, 2005.

⁹ Commonwealth of Pennsylvania Department of Corrections, "Training and Travel Guide," November 2000.

¹⁰ Commonwealth of Pennsylvania Department of Corrections, Policy Number 4.1.1, "Human Resources and Labor Relations," February 25, 2002.

¹¹ Commonwealth of Pennsylvania Department of Corrections, Policy Number 10.2.1, "Facility Maintenance," June 1, 2001, and amended October 10, 2005.

¹² Agreement between the Commonwealth of Pennsylvania and Pennsylvania Social Services Union effective July 1, 2003, to June 30, 2007; Master Agreement between the Commonwealth of Pennsylvania and Council 13, American Federation of State, County and Municipal Employees effective July 1, 2003, to June 30, 2007; Collective Bargaining Agreement between Pennsylvania State Corrections Officers Association and Commonwealth of Pennsylvania Department of Corrections effective July 1, 2001, through June 30, 2004; Agreement between the Commonwealth of Pennsylvania and The Correctional Institution Vocational Education Association effective July 1, 2004, to June 30, 2007; and Agreement between the Commonwealth of Pennsylvania and Service Employees International Union, AFL-CIO, CLC, effective July 1, 2003, to June 30, 2007.

Objectives, Scope, and Methodology

differential approvals, and other supporting documentation to the wages and benefits of the 24 employees for two additional pay periods in 2005.

For the current audit of the Houtzdale maintenance department, auditors examined the supporting documentation for credit card purchases, examined the individual work order logs for the facility's 14 maintenance shops, tested the accuracy and propriety of the work orders, including the documentation supporting the work orders and assessed the timeliness of work order completion.

Auditors also evaluated the SAP R/3 roles assigned to Houtzdale's warehouse staff and examined documentation of the warehouse inventory spot checks and the annual physical warehouse inventory.

Finally, the auditors performed tests, as necessary, in prior audit areas to substantiate their understanding of Houtzdale management's progress in resolving the prior audit findings.

Current Audit Findings

Contract Management

Commonwealth institutions often contract with vendors instead of providing services in-house, because the services may not warrant full-time positions or institution personnel may not possess the necessary expertise. Contracted services include, but are not limited to, medical services, religious services, equipment service and maintenance, and waste removal.

The Commonwealth has established guidelines for the procurement of services. These guidelines address the monetary thresholds and procedures for formal bids, as well as contract payment methods and requirements. Houtzdale's management is responsible for effectively monitoring contracted services performed on site.

For the current audit of the contracts, auditors selected open service purchase contracts for detailed testing from the fiscal year ended June 30, 2005. Of the 22 service contracts where anticipated expenditures exceeded the monetary threshold for competitive bids, auditors selected six contracts for testing. The six reviewed contracts consisted of a separate contract for pharmacy, mental health, and medical services, as well as three equipment maintenance contracts.

The detailed testing consisted of an analysis of the invoices and expenditure ledger entries for the three equipment maintenance contracts from July 2005 to December 2005.

The auditors also reconciled monthly pharmacy invoices to the corresponding expenditure ledger entries for August 2004 to July 2005, and compared the September 2005 pharmacy invoice to the daily pharmacy delivery sheets. The pharmacy contract was tested further by reconciling the documentation of receipt of 573 prescriptions on September 6, 2005, September 19, 2005, and September 24, 2005, to the corresponding pharmacy invoice.

The auditors examined records of psychiatric service hours from January 1, 2005, to June 30, 2005, and the November 2005 invoice and supporting documentation for mental health services. Finally, auditors compared the June and August 2005 medical service invoices to the corresponding physician time cards and/or sign-in sheets.

Finding 1 – Houtzdale awarded the six reviewed contracts in compliance with Commonwealth procurement guidelines and effectively monitored five of the six sampled contracts.

Our review of the bid documentation for the sampled contracts revealed that Houtzdale awarded the six contracts in compliance with Commonwealth procurement policies and

Current Audit Findings

procedures. The institution also ensured compliance with the terms of agreement and verified the accuracy of vendor invoices for the three equipment maintenance contracts, as well as for the mental health and medical service contracts.

Finding 2 – Houtzdale did not monitor its pharmacy invoices adequately.

Chapter 54 of the Commonwealth Procurement Handbook requires the contract monitor to perform the administrative details concerned with payment approvals. Section A of Chapter 54 states:

Monitoring and control are essential to ensure the contractor uses and manages its resources in a manner that will provide the agency exactly what it has contracted for in terms of quality, timeliness, and economy of cost.¹³

Although Houtzdale’s medical department verified the accuracy of the daily drug charges, drug returns, and emergency medications listed on pharmacy invoices, medical personnel did not always document drug receipt or verify the accuracy of all invoice credits and fees. The review of the September 2005 pharmacy invoice and associated delivery sheets disclosed that the staff responsible for checking drug receipt did not sign five of twenty daily delivery sheets. In addition, the medical department did not review credits that reduced the September 2005 invoice by \$1,395 or repackaging fees that increased the bill by \$1,000.

According to interviews, Houtzdale’s Correctional Health Care Administrator approved and signed the monthly pharmacy invoices and then returned the approved invoices to the pharmacy. Pharmacy personnel then forwarded the signed invoices to Corrections for payment. Houtzdale personnel did not reconcile the payments recorded in the SAP R/3 Materials Management module to the invoice amounts approved by the Correctional Health Care Administrator. A comparison of the original, unsigned pharmacy invoices to the payments recorded in the SAP R/3 system from August 2004 to July 2005 disclosed the following three differences:

<u>Month</u>	<u>Amount on invoice</u>	<u>Amount on SAP R/3 system</u>	<u>Difference</u>
April 2005	\$148,253	\$146,212	\$(2,041)
May 2005	133,582	131,261	(2,321)
June 2005	<u>141,815</u>	<u>139,215</u>	<u>(2,600)</u>
Total	<u>\$423,650</u>	<u>\$416,688</u>	<u>\$(6,962)</u>

The Correctional Health Care Administrator followed the contract monitoring procedures that Houtzdale established prior to her hire in July 2005. These procedures did not require the verification of all invoice credits and fees or a comparison of approved invoices to the SAP R/3 expenditure ledger.

¹³ See footnote 4.

Current Audit Findings

Houtzdale's pharmacy costs totaled approximately \$1.6 million for the twelve months from August 2004 to July 2005. Repackaging charges exceeded \$10,000, and invoice credits totaled approximately \$65,000 for the same period. The institution's failure to verify all invoice credits and fees and to compare its expenditure ledger to approved invoices may have allowed errors to go undetected, and uncorrected.

Recommendations:

Houtzdale management should develop and enforce procedures to ensure the accuracy of pharmacy invoices and associated expenditures. Management should check all credits and fees on the monthly invoices and trace payments recorded on the SAP R/3 system to approved invoices. The staff responsible for checking drug receipt should sign all daily delivery sheets.

Management Comments:

Houtzdale management provided the following written comments:

As the result of this finding, we have implemented the following procedures. Pharmacy nurses are now copying bar code return sheets. They are checked against monthly statements.

A copy of the approved monthly invoice is sent to the business office. The business office checks the invoice against the amount paid in SAP.

The nursing staff has been notified to sign the daily delivery sheet to verify receipt of drugs.

Travel Expense

Commonwealth employees are entitled to receive reimbursement within prescribed maximums for out-of-pocket expenses incurred within the performance of their duties. The Commonwealth and Corrections have developed policies and procedures that specify the types of allowable/reimbursable employee travel. These guidelines address the eligibility, rates, and documentation required for reimbursement of expenses for personal mileage, meals, and hotel accommodations. Corrections began using SAP R/3 in its travel management processes in June 2004.

Auditors analyzed the supporting documentation for the June and August 2005 travel expenses for 48 employees in order to verify management approval and accuracy. In addition, auditors reconciled the 11 hotel invoices paid in August 2005 to the corresponding approved travel requests and travel expense statements.

Finding 3 – Houtzdale complied with guidelines and implemented effective controls over travel expenses.

The travel expenses reported on the general ledger for June and August 2005 agreed with the corresponding travel expense statements and receipts, as well as with the rates specified in the Governor's Office directive regarding travel and subsistence allowances. Supervisors approved all travel requests and expense statements prior to reimbursement. Furthermore, the 11 hotel payments in August 2005 agreed with the associated travel requests and expense statements. As a result, auditors concluded that Houtzdale complied with Commonwealth and Corrections guidelines regarding travel and the associated employee reimbursements. Moreover, the facility implemented effective controls over its travel expenses.

Current Audit Findings

Payroll

Corrections began using SAP R/3 in its human resource and payroll processes in January 2004. The new software permits employees with authorized access to update and maintain their own personal information and working time.

Auditors compared the January 17, 2004, wage rates and leave balances recorded for 24 of 585 employees in Houtzdale's old ICS payroll system to the January 18, 2004, wage rates and leave balances recorded for the same employees in the SAP R/3 Payroll module. Auditors also compared the leave slips, overtime records, shift differential approvals, and other supporting documentation to the wages and benefits of the above 24 employees for the pay periods ended August 26, 2005, and September 23, 2005.

Finding 4 – Houtzdale processed its payroll through the SAP R/3 Payroll module accurately.

Houtzdale accurately recorded the beginning wage rates and leave balances of the sample of 24 employees upon inception of the SAP payroll software at the institution during January 2004. Houtzdale properly processed the leave, wages, and benefits for the same 24 employees for the pay periods ended August 26, 2005, and September 23, 2005. Additionally, appropriate approvals accompanied the leave, overtime, and shift differential documents for the 24 employees for the above two pay periods. As a result, auditors concluded that Houtzdale accurately processed its payroll through the SAP R/3 system.

Maintenance Costs

Houtzdale houses more than 2,000 inmates and employs over 550 workers, including 42 employees in its maintenance department. The institution encompasses about 273 acres of land with approximately 65 acres inside a double fence topped with razor wire. The physical plant consists of ten housing units, an infirmary, an education/activities complex, as well as dietary, laundry, and maintenance facilities.

During the fiscal year ended June 30, 2005, Houtzdale expended approximately \$268,700 in maintenance supplies purchased through its purchasing card.

The institution's maintenance department consists of 14 specialty trade shops, including the automotive, carpentry, and welding shops. The primary objective of the maintenance department is to provide routine and preventive maintenance for the facility. According to Corrections policy, construction projects are subordinate to this primary function.¹⁴

For the current audit of the Houtzdale maintenance department, auditors examined the supporting documentation for 28 of 564 maintenance credit card purchases from July 1, 2004, through August 31, 2005. Auditors also examined the individual work order logs for the facility's 14 maintenance shops from January 1, 2004, through November 15, 2005. To test the accuracy and propriety of the work orders, auditors analyzed the documentation associated with 39 of 9,821 work orders completed between January 1, 2005, and November 15, 2005. Finally, auditors reviewed 69 of 290 work orders issued between January 12, 2004, and October 31, 2005, and identified as open on November 15, 2005 to assess the timeliness of completing the work orders.

Finding 5 – Houtzdale did not administer its work order system effectively and work orders were not always completed in a timely manner.

Corrections has developed comprehensive policies and procedures for the request, approval, priority assignment, and completion of work orders. Section 12.A.1 of Corrections' Facility Maintenance Procedures Manual requires work orders to be initiated by department staff, signed by the department head, and forwarded to the maintenance department for review, evaluation, disposition, approval, assignment of a priority code, and scheduling. The manual also specifies that staff must use only the standard maintenance work order form (DC-437) to request maintenance work.

Section 12.A.4 of 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

¹⁴ See footnote 11.

Current Audit Findings

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.¹⁵

Houtzdale employees used standard work order forms that preceded the DC-437 forms to request maintenance work. A facility maintenance manager numbered the work order requests and assigned them to the various shops according to the necessary maintenance expertise. The shop supervisors then delegated the work to the individual maintenance workers. When the maintenance workers completed the assignments, Houtzdale required them to enter specifics about the jobs on the printed forms and submit them to the maintenance office. The maintenance office clerk filed the printed forms and entered pertinent data and status updates on a computerized spreadsheet.

Although Houtzdale's work order forms were outdated, the forms included sections to document the priority level and the cost of labor and materials, as well as approval and inspection signatures. The analysis of 39 work orders completed between January 1, 2005, and November 15, 2005, disclosed that Houtzdale management did not enforce the guidelines that required maintenance employees to document work order data. The results of the analysis of completed work orders are summarized below:

- None of the 39 sampled work orders documented the cost of labor and materials.
- Twenty-seven, or 69 percent, of the 39 completed work orders did not include any approval signatures.
- Thirty-six, or 92 percent, of the 39 sampled work orders did not include inspector signatures.
- None of the sampled work orders documented a priority level.

Houtzdale's spreadsheet summary of work orders issued between January 12, 2004, and October 31, 2005, reported that 290 work orders were open at November 15, 2005. The spreadsheet summary indicated that the 290 work orders were open an average of 121 days at November 15, 2005. The summary listed 25 work orders as open more than a year after the request date.

The auditor's detailed review of 69 of the 290 open work orders revealed that management did not always monitor the work orders to ensure their completion. Our review indicated that 21 of the 69 work orders were actually completed. According to maintenance department management, the 21 corresponding work order forms were misplaced and, thus, the status of the work orders was stated incorrectly on the summary.

¹⁵ See footnote 11.

Current Audit Findings

A well-managed work order system supports efficient and effective maintenance operations essential to a safe prison environment. Management's failure to monitor the work orders 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 endanger the safety or security of inmates, employees, or visitors in the future. Fortunately, the sample of 69 open work orders did not appear to involve immediate dangers to the safety or security of inmates, employees, or visitors.

The documentation of job specifics also supports the efficiency and effectiveness of maintenance operations. Maintenance employees should document the usage of parts and supplies to enable management to evaluate the propriety and amounts of the materials used and to take necessary corrective action to control future costs. Supervisors should document individual job approval/inspection to ensure that jobs are completed and that work quality is appropriate.

Recommendations:

Houtzdale management should enforce Corrections policy and procedures, requiring the documentation of job priorities, approvals, inspections, and labor and materials costs. Management should consistently monitor open work orders to ensure timely completion. Finally, maintenance management should routinely update the work order computerized summary to reflect the status of all work orders accurately.

Management Comments:

Houtzdale management provided the following written comments:

SCI- Houtzdale uses STD – 549 Work Order, which contains the same information as the DC-437. We will switch to DC – 437 Maintenance Work Order when we have exhausted our inventory of the STD – 549. The Department of Corrections is piloting an automated Work Order program and will distribute it department wide.

Current Audit Findings

Inventory Management

Commonwealth facilities must maintain an inventory of items necessary for day-to-day operations. As of September 30, 2005, Houtzdale maintained inventory records for about 700 different items in its warehouse. These inventoried items, valued at approximately \$570,000, included food, clothing, janitorial supplies, and office forms. Corrections began using SAP R/3 in its inventory management processes in October 2002.

The SAP R/3 software package is designed to track the institution's inventory from receipt at the warehouse to usage by the facility. As ordered items are received and stored in the warehouse, receipt of the items is entered into the inventory records electronically. As inventory items are physically removed from the warehouse for facility usage, the quantity of the inventory items is reduced correspondingly.

The prior audit conducted by the Department of the Auditor General reported weaknesses in Houtzdale's warehouse inventory safeguards. Warehouse stock clerks conducted the periodic physical counts of the inventory items. Furthermore, Corrections had not developed comprehensive policies and procedures for inventory control.

Finding 6 – Houtzdale improved physical inventory controls over the warehouse inventory.

The current audit identified improvement over warehouse inventory controls. The institution developed and implemented procedures regarding annual physical inventories, spot checks, and account adjustments. Houtzdale warehouse personnel conducted an annual physical inventory of all items in the warehouse during June 2005. Additionally, business office personnel performed spot checks of 90 inventory items in June 2005 and 25 inventory items in September 2005. The review of SAP R/3 inventory management roles disclosed that the warehouse supervisor was the only warehouse employee with the ability to adjust inventory balances. Finally, a comparison of SAP R/3 inventory records for 24 of 712 warehouse inventory items to physical counts performed by the audit team did not disclose any material discrepancies.

Finding 7 – Houtzdale did not segregate SAP R/3 warehouse personnel roles adequately.

The Commonwealth's guidelines for role mapping require that different persons be assigned the roles of purchasing and receiving merchandise.¹⁶ For the current audit, auditors examined summaries and tests of the SAP R/3 roles assigned to Houtzdale's warehouse staff.

¹⁶ <http://www.ies.state.pa.us/imaginepa/lib/imaginepa/Allroles.html> View Date: October 21, 2005.

Current Audit Findings

Houtzdale assigned the institution's warehouse supervisor and five stock clerks the ability to create purchase orders and receive goods through its role mapping process. As a result, an individual assigned the ability to create purchase orders and receive goods in the SAP system could order goods valued under \$3,000 from a vendor for personal consumption, indicate that he/she is the shipping recipient, and document the receipt on the SAP system without additional management detection. Houtzdale did not adequately segregate the duties assigned to employees in the SAP R/3 system to reduce the risk of errors or fraud.

Recommendations:

Corrections and institution management should evaluate the roles assigned to Houtzdale warehouse employees in the current SAP R/3 system and make any necessary changes to optimize the segregation of duties. Houtzdale management should develop compensating controls to prevent one individual from preparing a purchase order and then receiving that order.

Management Comments:

Houtzdale management provided the following written comments:

According to mapping rules, some roles will be automatically assigned to positions when those positions are given certain other roles. We have no control over roles mapped to positions.

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, 2001, to January 2, 2004, along with descriptions of Houtzdale's disposition of the recommendations.

Inmate Restitution and Other Court-Ordered Obligations

Prior Finding I-1 – Houtzdale did not collect restitution, fines, or costs for some court orders issued after October 16, 1998.

The prior audit reported that Houtzdale did not collect restitution and costs for seven inmates' court orders issued after the effective date of Act 84.¹⁷ More specifically, Houtzdale failed to collect approximately \$1,130 in restitution and costs from the seven inmates' accounts through December 22, 2003.

Houtzdale did not develop or implement procedures to ensure that all court orders with restitution, fines, and/or costs were entered accurately into the inmate accounting system for Act 84 deductions. Houtzdale personnel relied on the initial review of files conducted at the State Correctional Institution at Camp Hill during inmate intake proceedings.

We recommended that Houtzdale's records office review all current inmate files to identify all current court orders and ensure that Act 84 deductions are made for all relevant accounts.

Status:

The current audit disclosed that Houtzdale collected restitution for court orders issued after the effective date of Act 84. A review of the records for 25 of Houtzdale's 2,250 inmates revealed that the institution recorded all 46 associated court orders in its inmate accounting system. Additionally, the review disclosed only two immaterial discrepancies between the amounts recorded on the actual court orders and the amounts recorded in the inmate accounting system.

The review of the seven inmates' accounts cited in the prior report revealed that Houtzdale corrected all court-ordered restitution and costs in the inmate accounting system for five of the seven inmates. The institution closed the individual account of one inmate who completed his sentence since the close of prior audit fieldwork in January 2004. Finally, the

¹⁷ 42 Pa.C.S. §9728. Collection of restitution, reparation, fees, costs, fines and penalties.

Status of Prior Audit Findings and Recommendations

institution correctly recorded the obligations for nine of the ten court orders in the inmate accounting system for the remaining inmate cited in the prior report.

Because of these actions, we concluded that Houtzdale complied with the prior report's recommendation to ensure that Act 84 deductions are made for court orders issued after October 16, 1998.

Prior Finding I-2 – Restitution, fines, or costs were not deducted for some court orders issued prior to October 16, 1998.

The prior audit reported that Houtzdale did not collect restitution and costs from the accounts of 13 inmates for court orders dated prior to the effective date of Act 84.¹⁸ Houtzdale failed to collect approximately \$5,630 in restitution and court costs from the 13 associated inmate accounts from October 16, 1998 through December 22, 2003.

The Department of the Auditor General reasoned that Act 84 did not preclude the Department of Corrections from deducting inmate accounts for court orders dated prior to the Act's effective date.

In November 1998, the Department of Corrections responded that it was not cost effective to apply Act 84 retroactively and directed its institutions to act only upon court orders issued on or after October 16, 1998, or upon any valid court order that was issued before the effective date and brought to the institution's attention. The directive was based on concerns that the manual review of all current inmate files would be too time-consuming and labor-intensive.

The Department of the Auditor General, based on the broader interpretation of Act 84, recommended that the Department of Corrections establish and implement policies and procedures for the review of all current inmate records for the purpose of deducting all court ordered restitution, fines, and costs.

Status:

In a letter to the Auditor General, dated August 18, 2004, the Department of Corrections disagreed with the prior report's recommendation. According to the letter, due to the sweeping provisions of Act 84 and its impact on Corrections, county courts, and many other organizations, it was decided that Corrections would only implement court orders submitted after October 16, 1998. In addition, the Department of Corrections would continue to collect debt from court orders for which collections were already being taken. Furthermore, due to the overwhelming workload that would be placed upon the Department of Corrections' staff, the records of approximately 36,000 currently incarcerated inmates would

¹⁸ See footnote 17.

Status of Prior Audit Findings and Recommendations

not be reviewed. Lastly, the Department of Corrections indicated that it wanted to start fresh in confronting the new requirements of Act 84.

The current audit disclosed that the Department of Corrections has not issued a revised directive to its institutions to collect inmate restitution and court costs associated with court orders issued prior to October 16, 1998, based on the reasoning in the August 18, 2004 letter. Although we reaffirm our prior position that Act 84 collection requirements may apply to the accounts of inmates sentenced to Corrections' institutions both before and after the effective date of the Act, we accept Corrections' disposition of the finding as a reasonable approach to collecting restitution and other court costs. Accordingly, we have limited our current efforts for testing compliance with Act 84 collection requirements to those court orders issued after the Act's effective date.

Inventory

Prior Finding III-1 – Warehouse personnel were assigned incompatible duties.

The prior audit reported that warehouse personnel were assigned both custodial and record-keeping duties. For example, the warehouse stock clerks conducted the periodic physical counts of the inventory items and maintained the inventory records.

We recommended that Houtzdale develop, implement, and enforce comprehensive internal control policies and procedures for its warehouse inventory. These procedures should ensure that custodial and record-keeping duties are adequately segregated. We also recommended that the periodic physical counts of warehouse inventory items be performed by personnel independent of the warehouse, such as business office or accounting staff.

Status:

The current audit disclosed that Houtzdale partially complied with the recommendations of the prior report. The institution developed and implemented procedures regarding annual physical inventories, spot checks, and account adjustments. Houtzdale warehouse personnel conducted an annual physical inventory of all items in the warehouse during June 2005. Additionally, business office personnel performed spot checks of 90 inventory items in June 2005 and 25 inventory items in September 2005. The review of SAP R/3 inventory management roles disclosed that the warehouse supervisor was the only warehouse employee with the ability to adjust inventory balances. A comparison of SAP R/3 inventory records for 24 warehouse items to physical counts performed by the audit team did not disclose any material discrepancies. However, summaries and tests of the SAP R/3 roles assigned to Houtzdale's warehouse staff revealed that Houtzdale did not adequately segregate SAP R/3 purchasing and receiving roles, as discussed more fully in Finding 7 of the current report.

Audit Report Distribution List

This report was initially distributed to the following:

Commonwealth of Pennsylvania

The Honorable Edward G. Rendell
Governor

The Honorable Robert P. Casey, Jr.
State Treasurer

The Honorable Noah W. Wenger
Majority Chair
Senate Appropriations Committee
Senate of Pennsylvania

The Honorable Vincent J. Fumo
Minority Chair
Senate Appropriations Committee
Senate of Pennsylvania

The Honorable Brett Feese
Majority Chair
House Appropriations Committee
Pennsylvania House of Representatives

The Honorable Dwight Evans
Minority Chair
House Appropriations Committee
Pennsylvania House of Representatives

Mary K. DeLutis
Comptroller
Public Protection and Recreation
Office of the Budget

The Honorable Jeffrey A. Beard
Secretary
Pennsylvania Department of Corrections

State Correctional Institution at Houtzdale
George N. Patrick
Superintendent

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, Pennsylvania 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our Web site at www.auditorgen.state.pa.us.