

Commonwealth of Pennsylvania
Department of Corrections
State Correctional Institution at Waymart
July 1, 2004, to January 26, 2007
Performance Audit



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December 26, 2007

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 Waymart of the Department of Corrections for the period July 1, 2004, through, January 26, 2007. 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 our audit objectives, scope, methodology, results, and recommendations. This report notes that although Waymart complied with applicable policies regarding the vending contracts, improvements in contract monitoring are recommended. Waymart still did not provide the Fire Emergency Response Team members with the required amount of training as detailed in our prior audit report. We discussed the contents of the report with the officials of the institution and all appropriate comments are included with each finding in the report.

We appreciate the cooperation extended to us by the management and staff of the State Correctional Institution at Waymart 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 Waymart.....	1
Objectives, Scope and Methodology	3
Audit Results	5
Contracts.....	5
Finding 1 – Service purchase contracts complied with applicable policies and procedures.....	5
Finding 2 – The Employee Activities Association vending machine agreement did not include a due date for commission payments.....	5
Finding 3 – Waymart did not verify vender monthly vending machine meter readings.....	6
Inmate General Welfare Fund.....	6
Finding 4 – Waymart complied with IGWF policies and procedures.	7
Finding 5 – Waymart did not receive commission payments from the IGWF vending machine contractor on time.....	7
Expense Management	8
Finding 6 – Waymart processed direct pay expenditures correctly.	9
Status of Prior Audit Findings and Recommendations.....	10
Training.....	10
Prior Finding I-1 – Members of the Fire Emergency Response Team did not receive the required training.	10
Prior Finding I-2 – Inconsistencies existed between course sign-in sheets and Correction Officers’ training records.....	11
Fixed Assets	12
Prior Finding II-1 – Waymart did not comply with Commonwealth and Corrections fixed asset control requirements.	12
Warehouse Inventory Controls.....	13
Prior Finding IV-1 – The Integrated Enterprise System (IES) inventory system did not contain accurate inventory balances.....	13
Audit Report Distribution List.....	14

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. In January 1981, responsibility for bureau operations transferred from the authority of the Attorney General to the Office of the 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 main purpose and goal of the Department is to maintain a safe and secure environment for both the incarcerated offenders and the staff responsible for them. In addition, the Department believes that every inmate should have an opportunity to be involved in a program of self-improvement.

The Department is responsible for all adult offenders serving state sentences of two years or more. As of June 30, 2006, it operated 24 correctional institutions, one regional correctional facility, one motivational boot camp, a training academy, and 15 community pre-release centers throughout the Commonwealth of Pennsylvania.

State Correctional Institution at Waymart

The mission of the State Correctional Institution at Waymart is to provide a safe and secure environment for the staff, inmates and visitors, and to provide adequate programs and security for inmates.

Waymart is a minimum/medium security facility for adult male offenders, located in Canaan Township and Waymart Borough, Wayne County, approximately 20 miles northeast of Scranton. It is comprised of the land and buildings that were once known as Farview State Hospital. Waymart's physical plant encompasses approximately 770 acres of land. The facility complex comprises multiple buildings, the majority of which are designated for inmate housing and programs.

Waymart was brought on-line ahead of its scheduled opening to deal with the aftermath of the October 1989 riot at the State Correctional Institution at Camp Hill. It received its first inmates on October 29, 1989.

¹ 71 P.S. § 310.1.

Background Information

Waymart opened a 50 bed Intermediate Care Unit on January 20, 1997. This unit is a non-court committed mental health unit that provides extended treatment to inmates who no longer need inpatient hospital treatment.

Unaudited Waymart operating data compiled for the years ended June 30, 2005, and 2006 is provided below:

	2005	2006
Operating expenditures (rounded in thousands) ²		
State	\$59,255	\$63,103
Federal	<u>128</u>	<u>168</u>
Total	<u>\$59,383</u>	<u>\$63,271</u>
Inmate population at year end ³	1,359	1,346
Capacity at year end	1,341	1,339
Percentage of capacity at year end ⁴	101.3%	100.5%
Average monthly inmate population	1,348	1,345
Average cost per inmate ⁵	\$44,052	\$47,053

² Operating expenditures are recorded net of fixed asset costs, an amount that would normally be recovered as part of depreciation expense.

³ Inmate population and capacity at year-end statistics do not include the Waymart Forensic Treatment and is not included in the percent of capacity of SCI Waymart.

⁴ For the fiscal year ended June 30, 2005, the prison had only been accepting inmates for nine months, and was only partially filled.

⁵ Average cost was calculated by dividing the operating expenditures by the average monthly inmate population.

Objectives, Scope and Methodology

We selected the objectives for the current audit from the following general areas: Contracts, Inmate General Welfare Fund, and Expense Management. In addition, we determined the status of the recommendations made during the prior audit of Waymart. The specific objectives for this audit were:

- To test compliance with contract procurement procedures including whether selected service purchase contracts and vending agreements were bid properly, approved, and monitored for compliance with contract terms and whether services were received and properly paid. (Findings 1, 2, and 3)
- To determine whether Waymart complied with applicable Inmate General Welfare Fund policies and procedures. (Finding 4 and 5)
- To assess the adequacy of internal controls and department policies associated with the processing of direct pay procurement transactions. (Finding 6)
- To determine the status of management's corrective actions for prior audit findings that addressed employee training, fixed assets control and warehouse inventory management.

The scope of the audit was from July 1, 2004, through January 26, 2007. Auditors conducted fieldwork from August 14, 2006, to January 26, 2007, and held an exit conference on April 25, 2007, to discuss the results of the audit with management of the institution. Management's comments are included with each recommendation in the report.

To accomplish the audit objectives, the auditors obtained and reviewed the Commonwealth of Pennsylvania Field Procurement Handbook,⁶ the Department of Corrections Fiscal Administration Policy,⁷ the Staff Development and Training Procedures Manual, the Department of General Services Standard Terms and Conditions for Department of General Services Statewide Services Contracts, and the Department of General Services Website.⁸ They also reviewed Waymart's written response, dated April 21, 2006, replying to the Auditor General's prior audit report.

Auditors interviewed Department management and staff, including the Safety Manager, the Training Coordinator, the Business Manager, Purchasing Agent, Budget Analyst, and the

⁶ Commonwealth of Pennsylvania Field Procurement Handbook M215.3.

⁷ Department of Corrections Fiscal Administration Policy Statement 3.1.1, Section F – Service Contracts and Section O – Vending, and Fiscal Administration Procedures Manual Section 4 – Purchasing.

⁸ [www.dgsweb.state.pa.us/comod/contract.asp?dgsNAV=\[5053\]](http://www.dgsweb.state.pa.us/comod/contract.asp?dgsNAV=[5053]).

Objectives, Scope and Methodology

Accountant. They also held discussions with Waymart's management and staff to obtain an updated understanding of the progress in implementing the prior audit's recommendations and other corrective actions to resolve the prior findings.

Auditors assessed Waymart's compliance with policies and procedures regarding service purchase contracts by analyzing nine service purchase contracts and two vending agreements. They specifically addressed whether contracts were properly bid, approved, and monitored for compliance with contract terms and whether services were received and properly paid.

To determine Waymart's compliance with applicable Inmate General Welfare Fund (IGWF) policies and procedures, auditors obtained and analyzed the balance sheets, the consolidated income statements, and the bank statements for June 2005 and June 2006. Auditors also analyzed Waymart's IGWF 2006-2007 Budget Proposal and the Department of Corrections IGWF 2006-2007 Budget. Additionally, the auditors analyzed the Transaction History Summaries for 58 of 1,460 inmates as well as 53 of 388 transactions from the June 2006 check register.

To assess the adequacy of internal controls associated with the processing of direct pay procurement transactions, auditors analyzed the supporting documentation associated with 122 invoices out of the 527 KR document type transactions processed through the SAP/R3 Materials Management module between July 1, 2004, and June 30, 2006 available on the Treasury Department's website⁹. We selected 61 expenditures from the FB60 Reports for the fiscal years ended June 30, 2005, and June 30, 2006, during the process we found some of the expenditures were made up of several separate invoices. In all, we reviewed 122 invoices for 61 payments made by the Treasury Department on behalf of SCI Waymart.

Finally, auditors performed tests, as necessary, in prior audit areas to substantiate their understanding of Waymart's progress in resolving the prior audit findings. The testing of Fire Emergency Response Team training consisted of an examination of the training records for all 25 Team members for the 2005 calendar year.

⁹Commonwealth of Pennsylvania Treasury Department Warrant Number page website
<http://invoices.tre.state.pa.us>.

Audit Results

Contracts

Commonwealth institutions frequently contract with vendors to provide essential services required for the fulfillment of their mission. Full time positions may not be warranted or institutional staff may not have the expertise to provide the services in-house. As a result, contracts provide the institution with a more economical and efficient means of providing the service. In order for a vendor to bid on the contract, they are required to have a vendor number assigned through the Department of General Services. Each interested vendor then contacts Waymart and three copies of the bid specifications are provided to the vendor. Waymart, upon receipt of the signed bids by the announced date and time, reviews the bids and determines to award the contract to the lowest, most responsible bidder. Once the contract is awarded, Waymart assigns a contract monitor to each contract for review and enforcement of the stipulations of the contracts.

Finding 1 – Service purchase contracts complied with applicable policies and procedures.

All nine service purchase contracts selected for detailed review were supported by proper documentation regarding the specifics of the contract, the proper advertising through the Department of General Services, the assigned vendor number, the submitted bid, and the assigned contract monitor.

Finding 2 – The Employee Activities Association vending machine agreement did not include a due date for commission payments.

Waymart's Employee Activities Association has an agreement with Maloney Enterprises to provide vending machine services from which commissions benefit the association. Auditors examined the current agreement for the purpose of assessing the effectiveness of the contracted services. As part of that assessment, auditors noted that the contract did not designate a date by which the vendor should pay the association the commissions owed. The association has not required the vendor to formally stipulate in the agreement when the payments are to be made though a verbal understanding exists, which calls for payments to be made every six months. Our review of a schedule of payments for the last two years indicated that the vendor paid the commissions within the six-month period. Nevertheless, having a payment date designated in the agreement would discourage the vendor from delaying payments beyond the due date.

Audit Results

Recommendation:

Although Maloney Enterprises has not been late with payments over the last two years, all contracts indicating payment to Waymart should have specific payment dates. Waymart should work with Maloney Enterprises to add an addendum to the contract to specify a date for payment of commissions.

Management Comments:

During a meeting with the Business Manager on January 25, 2007, he confirmed that Waymart would contact other State Corrections Institutions to determine how they monitor vending contracts.

Finding 3 – Waymart did not verify vender monthly vending machine meter readings.

As part of the assessment of contract services, auditors noted that the vendors restock the vending machines, without a representative from Waymart present. The absence of Waymart oversight could allow vendors to understate the sales and, in turn, pay lower commissions. To assure that vending commission revenue is maximized, appropriate Waymart staff should be available to verify the sales when the vendor is restocking the machines. Currently, there are no controls or procedures in place to verify sales; reliance is placed strictly on the vendor's word that the sales amount used to calculate commissions is accurate.

Recommendation:

Waymart should assign a management designee the duties of accompanying the vendor for the purpose of monitoring the meter reading and restocking of all vending machines.

Management Comments:

In a meeting on January 25, 2007, the Business Manager reported that Waymart would look into various ways to monitor the actual meter readings and restocking.

Inmate General Welfare Fund

The Department of Corrections operates a single fund known as the Inmate General Welfare Fund (IGWF) at each institution in order to account for inmates' individual balances as well as sales from the commissary, hobby craft functions, and personal services available to facility employees. In addition, donations from organizations or individuals for the benefit of inmates are included in this fund. Monies from all state correctional facilities are held in

a central fund controlled by the IGWF Council and are invested on behalf of inmates. The Fiscal Administration Policy¹⁰ and the Fiscal Administration Procedures Manual¹¹ provide guidance to IGWF personnel at Waymart. Waymart supports inmate input in the operation of Fund budget through the establishment of an IGWF Committee that meets at least on a quarterly basis. The Committee is comprised of inmate representatives as well as staff representation.

Finding 4 – Waymart complied with IGWF policies and procedures.

Our review of the IGWF determined that Waymart complied with designated policies and procedures. Auditors reconciled the total of all inmate accounts to the total of the Inmate Account on the consolidated balance sheets for June 2005 and June 2006. The bank reconciliations from June 2005 and June 2006 were prepared accurately and on a timely basis, and the checking account earned interest each month.

The audit revealed that transactions were managed accurately. Our review of 58 inmate accounts from June 2006 uncovered no discrepancies with receipt or disbursement transactions. In addition, 53 checks from the June 2006 check register were supported by documentation.

Auditors also noted that Waymart properly secured all money in the petty cash fund and limited access to authorized personnel. The auditors conducted an unannounced audit of the petty cash fund and the found the cash reconciled to the reports. Finally, the facility also maintained a separate Fixed Assets Ledger in order to facilitate the safeguarding of fixed assets that are part of the IGWF.

Finding 5 – Waymart did not receive commission payments from the IGWF vending machine contractor on time.

The audit of the IGWF vending contract for July 2004 to June 2006, disclosed that sales commissions had been anywhere from one to five months behind and the contract monitor had to make several calls to the vendor before the vendor made the commission payments. The Vending Service Agreement between Waymart and Caljean Vending Machine Service Inc. has been in existence since March 1992 and states:

We maintain our records with modern computer service and automatic coin counters. These records are open to your inspection at all times. The statements and checks for commissions are computed monthly and sent out about the twenty-fifth of the following month, or whenever your bookkeeping system demands.

¹⁰ Department of Corrections Fiscal Administration Policy Statement 3.1.1, Section J – IGWF.

¹¹ Department of Corrections Fiscal Administration Procedures Manual Section 7 – Fixed Asset Inventories.

Audit Results

When the vendor was called, many different excuses were offered as to why payments had not been made. This situation deprived the IGWF of timely receipt of funds and any interest earned on the funds that could be used to provide inmates with recreational items.

Recommendation:

Waymart should consider the selection of a new vending contractor. The possibility exists that Waymart is receiving below market commissions when compared to the negotiated commissions in 1992. In addition, Waymart should build penalties into the bid specifications for late payments to compensate for any delays in receiving commissions.

Management Comments:

In a meeting on January 25, 2007, the Business Manager stated that Waymart would contact other State Correctional Institutions to determine how they are addressing late payments from vendors.

Expense Management

Waymart purchases goods and services through the SAP R/3 Materials Management module and Visa purchasing cards. Expenditure transactions that have a three-way match of the purchase order, receiving report and invoice are known as a “MIRO” transaction in SAP R/3. These transactions are immediately processed for payment by the system.

Expenditure transactions without an electronic three-way match are called FB60 transactions. FB60 transactions require approval prior to processing payment through SAP R/3. For FB60 transactions, only the approved invoice is required for payment. Document types that are entered using the FB60 transaction at SCI Waymart include:

- Direct pay invoices centralized – document type KR
- Advancement account – Document type ZA

FB60 transactions are processed primarily by the Comptroller’s Office and represent vendor invoice payments, advancement account transactions, and one-time vendor payments. Vendor invoices are often mailed directly to the Comptroller, manually approved (initialed or signed) by agency personnel and then processed for payment by the Comptroller Office based on the agency approval.¹²

¹² Department of Corrections Fiscal Administration Policy Statement 3.1.1 VI Procedures Section 4, Monitoring of Expenditures, dated May 25, 2005.

Finding 6 – Waymart processed direct pay expenditures correctly.

The audit team selected 122 direct pay expenditure transactions processed by or for Waymart, and assessed compliance with purchasing policies and procedures. Based on our testing, Waymart had sufficient supporting documentation for 120 of the 122 invoices. The two errors were not processed by Waymart personnel. Our follow up inquiries revealed that the Department comptroller's office in Harrisburg had mistakenly charged two small travel expenses to Waymart when actually incurred by other state correctional facilities. The audit team brought the two errors to the attention of the business manager who took steps to have the correction made to the appropriate cost centers.

Status of Prior Audit Findings and Recommendations

The following is a summary of the findings and recommendations presented in our audit report for the period July 1, 2001, to December 3, 2004, along with a description of description of the disposition of each recommendation by the State Correctional Institution at Waymart.

Training

Prior Finding I-1 – Members of the Fire Emergency Response Team did not receive the required training.

The Department of Corrections has recognized the need to have a first response fire safety program that does not rely solely on available local fire responders at each of its correctional facilities. In order to address this need, Corrections established a Fire Emergency Response Team at each correctional facility. Furthermore, Corrections policy requires each Fire Emergency Response Team member to receive a minimum of 16 hours of fire safety training annually to ensure that the entire team is trained properly to perform rescue and fire relief activities¹³. We reported that Waymart did not comply with Fire Emergency Response Team training requirements in the prior Waymart audit report.

The prior audit disclosed that the Fire Emergency Response Team members at Waymart did not receive the required Department of Corrections training for the 2003-04 fiscal year. We recommended Waymart should schedule the Fire Emergency Response Team training at a time that would allow all Team members to receive the required training.

Status:

Auditors selected training records for all 25 Fire Emergency Response Team members for the 2005 calendar year. Nineteen of the 25 Team members, or 76 percent, did not receive the required 16 hours of training. The Safety Manager explained that, although Waymart provided 16 hours of Fire Emergency Response Team training during 2005, some members simply did not attend. Failure to obtain the required training may impact on the effectiveness of the Fire Emergency Response Team, and may jeopardize the safety of inmates, employees, and property at Waymart. The missed training hours are summarized in the following chart:

¹³ Staff Development and Training Procedures Manual 5.1.1, Section 12 “Special Response Teams Training Requirements” and Section 2 “Minimum Training Criteria” Attachment 2-A.

Status of Prior Audit Findings and Recommendations

Missed Hours	No. of Team Members
1-5 Hours	4
6-10 Hours	6
11-16 Hours	9

Recommendations:

Again, we recommend that Waymart ensure that all Fire Emergency Response Team members receive the required annual fire safety training.

We also call attention to a response dated December 21, 2004, from the Secretary of Corrections to a prior audit report concerning the same finding at another State Correctional Institution. This response states:

In instances where the employee receives training from an outside source, it shall be so documented by the member of the Fire Emergency Response Team and copies provided to training personnel. The Department will then be consulted for determination that the outside training meets the Department requirements.

Based on the above response, we also recommend that Waymart's Safety Manager begin collecting documentation of outside fire emergency training received by all Fire Emergency Response Team members. The Department should then evaluate and determine if this training could be credited toward meeting its annual training requirement. This process could potentially alleviate the ongoing deficiencies that persist in the area of Fire Emergency Response Team training.

Finally, we recommend that the Department formalize the position stated in the response by incorporating it into its policies and procedures and communicating it to all State Correctional Institutions for implementation.

Management Comments:

In a meeting on January 25, 2007, the business manager agreed with this finding and will start including relevant outside training, when applicable, for the Fire Emergency Response Team.

Prior Finding I-2 – Inconsistencies existed between course sign-in sheets and Correction Officers' training records

Our prior audit noted that Correction Officer training course participation was not accurately recorded in official Waymart training records. These records indicated that Corrections Officers did not receive mandatory training while course sign-in sheets for selected courses indicated that the Correction Officers did participate in these courses. Therefore, the

Status of Prior Audit Findings and Recommendations

accuracy of Waymart's official training records was called into question. We recommended that Waymart ensure that clerical staff assigned to post training records be familiar with training scheduling. In addition, the Training Coordinator should establish a formal quality control process to ensure that all training is accurately posted to individual training records.

Status:

Our current audit revealed that Waymart complied with our prior audit recommendations for maintaining accurate training records. The Training Department acquired access to and trained sufficient clerical support staff. The Department also created an excel spreadsheet that serves as a formal quality control mechanism to ensure precise record keeping. An examination of 25 Correction Officer training records did not disclose any inconsistencies between course sign-in sheets and the Correction Officer's training records.

Fixed Assets

Prior Finding II-1 – Waymart did not comply with Commonwealth and Corrections fixed asset control requirements.

The prior audit disclosed that Waymart again failed to maintain its fixed assets in accordance with Commonwealth and Department of Corrections policies. The required annual fixed asset physical inventory had not been conducted in approximately nine years and fixed asset additions and deletions had not been posted since June of 1996. We recommended that Waymart management comply with the Department of Correction's fixed asset inventory control requirements. Compliance should begin with the appointment of a Fixed Assets Control Coordinator who will be responsible for tagging fixed assets, the timely completion of an annual physical inventory, and maintenance of inventory records. In addition, the business manager should provide sufficient oversight to ensure that the Coordinator completes the assigned tasks.

Status:

Our current audit indicated that Waymart complied with our recommendations. A fixed asset coordinator was appointed and timely completion of a fixed assets inventory occurred. Fixed assets records were maintained and the assets were properly tagged.

It has come to our attention that the current fixed assets coordinator retired in November 2006. The business manager assured us that another coordinator will be appointed. We will follow up on the appointment of a successor to the fixed assets coordinator during the next audit of Waymart.

Status of Prior Audit Findings and Recommendations

Warehouse Inventory Controls

Prior Finding IV-1 – The Integrated Enterprise System (IES) inventory system did not contain accurate inventory balances.

Our prior audit noted that Waymart did not maintain adequate control over its main warehouse inventory. Inventory records were not accurate and when discrepancies were identified, they were not investigated. In addition, periodic independent test counts were not conducted. As a result, the accuracy of Waymart's inventory records was called into question. Another issue that contributed to the inaccurate inventory balances was a requisitioning practice that circumvented IES controls. Employees throughout the institution were permitted to requisition inventoried items by telephone instead of electronically through IES. We recommended that Waymart establish accurate inventory balances by either conducting another inventory of the entire warehouse or, at the very least, by conducting weekly or monthly spot checks of inventory items. Individuals independent of the warehouse should participate in those counts.

Status:

Our current audit indicated that Waymart complied with our recommendations. Two complete inventories had been conducted and staff independent of the warehouse was performing ongoing test counts. In addition, any exceptions noted in the counts are resolved immediately. IES requisitioning procedures were also being followed.

As a result of our testing and observation, we concluded that major improvements in the management of the warehouse inventory have been made. The constant diligence and oversight provided by the business manager should be commended.

Audit Report Distribution List

This report was initially distributed to the following:

Commonwealth of Pennsylvania

The Honorable Edward G. Rendell
Governor

The Honorable Gibson E. Armstrong
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State Correctional Institution at Waymart
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