

Commonwealth of Pennsylvania
Department of Corrections
State Correctional Institution at Retreat
July 1, 2004, to July 28, 2006
Performance Audit



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April 19, 2007

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

Dear Governor Rendell:

This report contains the results of the Department of the Auditor General's performance audit of the State Correctional Institution at Retreat of the Department of Corrections for the period July 1, 2004 to July 28, 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 notes inadequate SAP R/3 role mapping for the procurement personnel resulted in a lack of internal control. Retreat did not conduct an annual inventory of warehouse items and controls need to be improved over the warehouse function. Also, Retreat did not follow proper policy and procedures regarding maintenance, access, and release of personnel information for the employees of the institution

We discussed the contents of the report with officials of the institution and all appropriate comments are reflected in the report.

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

Sincerely,

JACK WAGNER
Auditor General

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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 moved 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 July 28, 2006, it operated 24 correctional institutions, 1 regional correctional facility, 1 motivational boot camp, a training academy, and 15 community pre-release centers throughout the Commonwealth of Pennsylvania.

Inmate General Welfare Fund

The Department of Corrections centrally controls an Inmate General Welfare Fund (IGWF) to provide custodial services for inmate personal monies (Cash Fund) and to generate funds for recreational activities (Reserve Fund). Each correctional institution within the Department maintains accounting records for its own portion of the IGWF. A central council consolidates, administers, controls, and invests all the institutions funds.

Community Pre-release Centers

Community Pre-release Centers were established because of Act 173 of 1968, which required the Bureau of Corrections at that time to establish, with the approval of the governor, prisoner pre-release centers at locations throughout the Commonwealth, necessary to carry out effective pre-release programs. Currently, the Department operates 15 Centers, which are located in Allentown, Erie, Harrisburg, Johnstown, Philadelphia, Pittsburgh, Scranton, Sharon, and York. Female residents reside at two of the Centers, while male residents occupy the other thirteen Centers.

¹ 71 P.S. §310.1

Background Information

The State Correctional Institution at Retreat assists the Centers in Harrisburg and York with transaction processing and other operational assistance.

The Centers are the Department's instruments for providing initial support to inmates in their first steps back to the community. The Centers provide individual and family counseling service, employment counseling, vocational and educational guidance, aid from public or private agencies, and participation in specialized programs dealing with drug or alcohol abuse, and a gradual reduction of custodial control as the inmates' acceptances of personal responsibility increase.

To be eligible for admission into a Center, an inmate must have completed at least one-half of their minimum sentence, but not have more than one year of the sentence remaining. Additionally, inmates must secure an institutional recommendation, and must obtain approval from both the Department and the sentencing judge. Persons serving life sentences are ineligible by law.

State Correctional Institution at Retreat

The State Correctional Institution at Retreat is a fenced, medium security facility for adult male offenders, located along the Susquehanna River in Hunlock Creek, Luzerne County, approximately 15 miles south of Wilkes-Barre. Formerly a Department of Public Welfare operated State mental hospital, the facility was transferred in 1981 to the Bureau of Corrections. After extensive remodeling and construction, Retreat officially opened as a correctional institution in January 1988. Retreat's mission is to protect society through the secure and humane confinement of offenders lawfully committed to the care of the Department.

Retreat encompasses 264 acres of land, approximately 157 of which are located inside a 14-foot high perimeter fence. Four major cellblocks provide housing for inmates in the complex, accommodating a population of 458 inmates. To help alleviate overcrowding, the Department converted most of the single cells to double cells, increasing the prison's capacity to 806 inmates.

Background Information

The following schedule presents selected unaudited Department operating statistics compiled for the years ended June 30, 2005 and 2006²:

	2005	2006
Operating expenditures (rounded in thousands)	\$29,967	\$30,258
Inmate population at year-end	862	885
Capacity at year-end	806	806
Percentage of Capacity at year-end	107%	110%
Average monthly inmate population	866	861
Average annual cost per inmate ³	\$34,604	\$35,140

² Data for 2006 extracted from the automated expenditure system on 7 December 2006, (prior to the annual GAAP audit) and therefore may not represent the final actual figures for operations.

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

Objectives, Scope and Methodology

We selected the audit objectives from the following general areas: Procurement, Inmate General Welfare Fund, Warehouse Inventory, and Time- Keeping and Payroll.

The specific objectives for this audit were:

- To assess the adequacy of the internal controls over the procurement function and the related processing of those procurement transactions through purchasing cards, the Advancement Account, and the SAP R/3 system. (Findings 1-4)
- To determine if Retreat complied with applicable IGWF policies and procedures. (Finding 5)
- To determine if Retreat exercised adequate segregation of duties and conducted an annual warehouse inventory. (Findings 6 and 7)
- To determine if Retreat complied with policy by ensuring all relevant information was kept in the employees' personnel files while all prohibited information was excluded from employees' personnel file as well as to verify the accuracy of Retreat timekeeping and payroll system. (Findings 8 & 9)

To accomplish these objectives we reviewed applicable policies and procedures in SAP R/3 procurement manuals, the IGWF Policies and Procedures, the Department of Corrections Policy Statement Number 3.1.1 and the applicable Management Directives, Union Agreements, and Department of Corrections' policies and procedures pertaining to timekeeping and payroll policies and procedures.

Auditors interviewed various Retreat management and staff, including Human Resources personnel to gain an understanding of the timekeeping and payroll processes as well as employee file folder maintenance issues.

To assess the adequacy of the internal controls over the procurement function and the related processing of those procurement transactions through purchasing cards, the Advancement Account, and the SAP R/3 system, auditors observed demonstrations of the institution's purchasing processes, evaluated the roles assigned to Retreat personnel in the SAP R/3 system to determine adequate segregation of duties and randomly selected and analyzed the supporting documentation associated with 79 of 1857 purchasing card transactions processed between July 1, 2004 and March 2006. They also randomly selected and reviewed documentation associated with 56 of 1168 SAP R/3 transactions processed between July 1, 2004 through March 31, 2006. Additionally they randomly selected and

Objectives, Scope and Methodology

reviewed documentation associated with 86 of 422 Advancement Account transactions processed between July 1, 2004 through March 31, 2006.

To determine if Retreat complied with applicable IGWF policies and procedures, auditors obtained, reviewed, and analyzed the Consolidated Balance Sheet as of June 30, 2005, the Consolidated Income Statement as of June 30, 2005, and the Bank Statement as of June 30, 2005. They matched the total of all inmate accounts to the Inmate Account on the Consolidated Balance Sheet and determined if Retreat reviewed and reconciled the Bank Statements timely. The auditors also selected 56 inmate balances as of June 30, 2005, and reviewed disbursement and receipt transactions and reviewed 20 transactions from the June 2005 check register for proper signatures.

To determine if Retreat management exercised adequate segregation of duties over warehouse inventory, auditors tested 54 items in the warehouse from a total population of 338 material numbers listed on the SAP "Inventory on Hand Report" for June 21, 2006. We also determined if the institution maintained a perpetual inventory system for supplies purchased, and evaluated the roles assigned to Retreat personnel in the SAP R/3 system.

To determine if Retreat complied with confidentiality and privacy, as well as to verify the accuracy of the timekeeping and payroll system the auditors selected a random sample of records for 25 employees. To verify compliance, auditors analyzed the reports of overtime, shift differential, and leave pay for pay periods ending January 14, 2006 and January 28, 2006. They also analyzed reports that detailed the hours for which the employees were paid for the pay period ending January 14, 2006, examining the records to determine if all necessary documents were readily available. Additionally, they reviewed overtime occurrence reports for proper approval and justification.

In discussions with Retreat's management and staff, the auditors obtained an updated understanding of the progress implementing the prior audit recommendations and other corrective action to resolve the prior findings.

The scope of the audit covered the period July 1, 2004 through July 28, 2006.

Audit Findings

Procurement

The Commonwealth began a comprehensive project in 2001 to integrate and redesign administrative functions, including procurement, by purchasing a new software system. This project, now known as the Integrated Enterprise System (IES), was designed to permit state agencies to operate with greater efficiency with the elimination of paperwork, establishing a vendor list, networking various agencies and aiding in the reconciliation of data from many sources.⁴ In October 2002, SCI-Retreat implemented the Integrated Enterprise System software, known as SAP R/3.

Retreat purchases goods and services through the facility's advancement account, purchasing cards, and SAP R/3. The method of payment is dependent upon the dollar value and the nature of the purchase. Items purchased through a state contract, stock items, or transactions valued greater than \$3,000 are processed entirely through SAP R/3. Non-stock items, items not on contract and items under \$3,000 are purchased through the Visa purchasing card system.⁵ The advancement account is used to expedite payments to vendors for goods and services. The account is restricted to a maximum disbursement of \$1,500 per check and is used mainly for vendors who do not accept the Visa purchasing card.⁶

Finding 1 – Purchasing card transactions complied with Commonwealth policies and procedures.

The review of 79 purchasing card transactions processed from July 2004 through March 2006 disclosed that the institution complied with Commonwealth policies and procedures for such transactions. Appropriate approvals, purchasing and receiving documents and invoices accompanied all sampled transactions. All statements were reconciled by the Accounting Assistant and approved by the Budget Analyst.

⁴ www.ies.state.pa.us.

⁵ Commonwealth of Pennsylvania, Governor's Office, Management Directive 310.23, Purchasing Card Program, March 24, 1997.

⁶ Commonwealth of Pennsylvania, Governor's Office, Management Directive 610.4, Procedures for Purchasing Goods and Services not Exceeding \$1500 Through Advancement Accounts.

Finding 2 – SAP R/3 transactions had appropriate and approved supporting documentation on file.

The SAP R/3 system is used to purchase items on a state contract, stock items, or transactions valued greater than \$3,000. A review of 56 transactions processed between July 2004 and March 2006 revealed that all transactions had the necessary supporting documentation and approval. All transactions were requisitioned through either the APR Tracking system or EB Pro with proper approvals and receiving documentation. Transactions without a hard copy attached were reviewed through the SAP system to ensure proper authorization.

Finding 3 – Advancement account payments complied with Commonwealth policy and are adequately monitored and reviewed.

Auditors determined that adequate control existed over the advancement account. The accounting clerk enters the information necessary on the SAP R/3 system to generate a document number. After the document number is generated, the clerk then enters the information required for a check number to be released from the Comptroller's office. The Comptroller's office does not release any check information without proper supporting documentation. After the check is released from the comptroller, it is given to the Budget Analysis for review before it is mailed from the facility.

The 86 advancement account transactions processed between July 2004 and March 2006 had the required documentation and approvals. A purchase request, purchase order, receiving report, and invoice were attached to a copy of the computer-generated check.

Finding 4 – Inadequate SAP R/3 role mapping for the procurement personnel resulted in a lack of internal control.

Retreat did not adequately segregate the duties assigned to employees utilizing the SAP R/3 procurement system, thereby increasing the risk of errors or fraud. Auditors reviewed the SAP R/3 role mapping assignments and established that management had provided the purchasing agent with multiple conflicting roles as an EB Pro Requisitioner, EB Pro Purchaser, and EB Pro Receiver. According to IES role mapping guidelines, employees assigned the purchaser role cannot perform the following roles:

- ✓ EB Pro Requisitioner
- ✓ EB Pro Receiver
- ✓ R/3 Receiver
- ✓ Invoice Processor

Audit Findings

The current role mapping assignment provides the purchasing agent with the ability to create a requisition, produce a purchase order, and receive merchandise and supplies. The SAP R/3 system is designed to pay an invoice when a three-way match occurs between the purchase order, receiving report, and invoice. Allowing the purchasing agent the authority to prepare a requisition, issue a purchase order, and receive merchandise results in inadequate segregation of duties and increases the level of risk to the organization.

Although the purchasing agent is aware of the conflicting role-mapping assignments, and does not receive any merchandise, Retreat management should require separate assignment of purchasing and receiving duties to reduce the possibility of errors or fraud to occurring in the procurement function.

Recommendation:

Retreat Management should reassign the procurement and receiving roles to ensure an adequate segregation of duties.

Management Comments:

At the March 16, 2007 exit conference, management stated that they would review role mapping duties and make changes that allow for the adequate segregation of duties.

Inmate General Welfare Fund

The Department of Corrections operates a single fund known as the Inmate General Welfare Fund (IGWF) at each Institution. The fund serves as a depository for individual inmate accounts, and revenues generated by sales from commissary, hobby craft functions, and personal services available to facility employees. In addition, donations from organizations or individuals that 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 Department of Corrections Accounting Manual, Operating Manual, and Fiscal Administration Policy⁷ guide IGWF personnel at Retreat. These policies and guidelines specify the required approvals, nature, processing of fund expenditures, and address the collection and safeguarding of monies generated by IGWF. The objective of this portion of the audit is to determine if Retreat complies with applicable IGWF policies and procedures.

⁷ Department of Corrections, Procedures Manual Policy 3.1.1.

Finding 5 – Retreat complied with IGWF guidelines.

Retreat complied with Department policies and procedures regarding IGWF. Auditors were able to match the total of all inmate accounts to the total of the Inmate Account found on the consolidated balance sheet successfully. In addition, our review of 25 inmate accounts from June 2005 disclosed no discrepancies with receipt or disbursement transactions. Finally, we examined 20 checks from the June 2005 check register and determined all the checks were signed properly.

Warehouse Inventory

Integrated Enterprise System was initiated at Retreat in October 2002. IES system software, known as SAP R/3, tracks inventory items from their initial point of requisition, to the purchase, through the receipt into their warehouse and removal from inventory. This process allows appropriately trained and authorized employees to requisition items, approve requisitions, and create purchase orders. When the ordered item is received and stored in the warehouse, the received items are entered into the inventory.

Finding 6 – Controls need to be improved over the warehouse function.

In addition to receiving all goods, the warehouse manager is also role mapped to adjust inventory without investigation and approval by the business manager. Although the Integrated Enterprise System guidelines allow the warehouse manager to perform these duties,⁸ it violates good internal control practices. For example, during a recent flood three boxes of canned goods were damaged and removed from the warehouse. The warehouse subsequently adjusted the records to reflect the actual inventory without any investigation or approval by the business office.

As a compensating control, the warehouse manager and his staff perform monthly inventory spot checks. While the warehouse manager's monthly inventory spot checks are appropriate, Retreat management could improve inventory oversight by involving the business office in the monitoring process since it is independent from the inventory custody and record keeping functions. Using an independent party to verify inventory internal controls decreases the possibility of theft, fraud, or misuse of funds. To help reduce this risk, the business office should conduct the monthly inventory spot checks and inventory adjustments should be investigated and approved by the business manager.

⁸ www.ies.state.pa.us.

Audit Findings

Finding 7 – Retreat did not conduct an annual inventory of warehouse items.

In accordance with Department of Corrections Fiscal Administration Policy Statement 3.1.1:

Physical inventories shall be conducted monthly for commissaries and annually for warehouses.⁹

Auditors determined that Retreat management did not conduct an annual inventory. The SAP R/3 system maintains a perpetual inventory of all items; however, without the actual count of every item, the SAP R/3 inventory record could be inaccurate. The lack of an annual inventory also increases the possibility of theft or the misuse of funds. Auditor testing of the warehouse inventory found exceptions with 18 items. An annual physical inventory of the entire warehouse would help ensure the proper count of each item and a good starting point for the implementation of effective inventory controls.

Recommendations:

We recommend the following:

- The business manager should be responsible to investigate and approve any adjustments to warehouse inventory.
- The business office should perform monthly inventory spot-checks.
- The warehouse staff, with the assistance of the Business Office should conduct an annual inventory. The inventory count must include all items held in the warehouse in order to ensure correct recording of inventory balances in the SAP system.

Management Comments:

At the March 16, 2007, exit conference management stated that they would investigate and approve inventory adjustments. In addition, management would perform inventory spot-checks and perform a full count of all inventory.

⁹ Department of Corrections, Procedures Manual Policy 3.1.1, Section VI, G. Inventory Management, Page 13.

Timekeeping and Payroll

The Commonwealth has established policy and procedures¹⁰ to maintain, retrieve, and submit personnel information for Commonwealth employees. The purpose of the policy is to create a uniform system of accountability for Commonwealth employees' personnel information and to protect the privacy of all current and past employees while providing for the public's right to know.

Retreat's payroll system automatically generates payroll payments based on the last inputted data. For most employees who work regular shifts with no overtime, there is no need to make adjustments. However, for employees who work overtime, payroll staff must input this information as the hours are earned. Determination must be made that overtime and shift differentials earned are consistent with Department of Corrections' policies and procedures¹¹ and negotiated labor agreements¹².

In January 2004, Retreat implemented an online service known as the Employee Self-Service (ESS) system¹³, which helps employees manage their employment information, such as requesting leave and viewing work schedules. Employees having access to this system enter attendances, absences, and travel expenses on their own while timekeepers perform Human Resource functions for employees who do not have computer access to the ESS system.

Finding 8 – Retreat did not follow proper policy and procedures regarding maintenance, access, and release of personnel information for the employees of the institution.

After reviewing the contents of 25 employees' personnel files from Retreat, we found that the Human Resource Department does not follow the guidelines of Management Directive 505.18 properly, which requires management to establish policies and procedures for the maintenance, access, and release of personal information of Commonwealth employees. A secondary objective of the management directive is to preserve and protect the privacy of all current and past employees and provide for the public's right to know.

Auditors determined that a number of the employee files did not contain necessary file information or included documents prohibited by the management directive.

The following charts summarize our finding.

¹⁰ Commonwealth of Pennsylvania, Governor's Office, Management Directive 505.18, Maintenance, Access, and Release of Employee Information, February 14, 2003.

¹¹ Department of Corrections, Procedures Manual Policy 4.1.1, Human Resource and Labor Relations, Section 16 – Overtime and Section 44 – Leave Management Program.

¹² Collective Bargaining Agreement between PA State Corrections Officers Assn and Commonwealth of Pennsylvania, H-1 Bargaining Unit and Memorandum of Understanding between Commonwealth of Pennsylvania and OPEIU Healthcare, Pennsylvania Local 112.

¹³ www.ies.state.pa.us.

Audit Findings

	Necessary File Information				
	Union Dues Deduction Status	Applic. Membership-SERS	Rights under 306 of PA WC Act	Sexual Harassment Receipt	I-9 Form
Employee 4	Y			Y	Y
Employee 5			Y		Y
Employee 6	Y			Y	
Employee 7					Y
Employee 8					Y
Employee 9			Y		Y
Employee 10			Y		Y
Employee 11					Y
Employee 12					Y
Employee 14			Y		
Employee 15					Y
Employee 16		Y	Y		
Employee 17				Y	
Employee 19	Y		Y		
Employee 20		Y	Y	Y	Y
Employee 21		Y	Y		
Employee 22	Y	Y	Y		
Employee 23		Y	Y	Y	
Employee 24	Y	Y	Y	Y	
Employee 25	Y	Y	Y	Y	

"Y" Denotes File Was Missing Document

	Prohibited File Information				
	Birth Certificate	Baptism Certificate	Social Security Card	Supplemental Employment Info	Photo
Employee 1	X		X		
Employee 3		X	X		
Employee 7	X		X		
Employee 8		X	X		
Employee 10	X				
Employee 13	X				
Employee 14			X		
Employee 15				X	
Employee 21				X	
Employee 22	X		X	X	X
Employee 25				X	

"X" Denotes Prohibited Information Was Included in File

As the charts depict, various documents such as the Union Dues Deduction Status Form, Application for Membership for the State Employees Retirement System, Rights under the 306 of the Pennsylvania Worker's Compensation Act Receipt, Sexual Harassment Receipt, and I-9 Forms were missing from the personnel files.

In addition to the missing documentation, a number of the files contained documents or information strictly prohibited from personnel folders. For example, auditors discovered copies of birth certificates, baptismal certificates, and social security cards. Additionally, photo and supplementary employment information, which should be maintained in separate files was found in a few of the files examined.

Audit Findings

This deficiency occurred because Retreat Management does not have a system in place to review employee files for missing and prohibited information periodically.

In order to protect the rights of current as well as past employees of the Institution and allow for the proper public knowledge, it is imperative that all necessary documentation is kept in personnel files and all prohibited information is kept out of personnel files.

Recommendation:

The Human Resource Manager should ensure that all necessary documents are filed in every employee's personnel file as according to Management Directive 505.18 and purge specifically prohibited information from all personnel files.

Management Comments:

At the March 16, 2007, exit conference, management agreed with our finding and recommendations and stated they would comply with our recommendation. In addition, management stated that for new employees a screening checklist has been established to ensure compliance with management directive 505.18.

Finding 9 – The timekeeping and payroll system generated accurate data.

Overtime, shift differential and employee's leave were properly paid and recorded. In addition, overtime and shift differential were consistent with Department policies and procedures.

Our audit of 25 employees' records for the pay periods ending January 14, 2006 and January 28, 2006, revealed that overtime and/or shift differential earned by the employees tested were justified, documented, approved, and paid appropriately. In addition, employees' leave during the two pay periods was accurately reflected in their leave statements.

Status of Prior Audit Result and Recommendation

The following is a summary of the finding and recommendation presented in our audit report for the period from July 1, 2000, to December 16, 2003, along with a description of Retreat's disposition of the recommendation. One or more of the following procedures determined the status of the findings and recommendations:

- A review of the Department's written response, dated December 10, 2004, replying to the Auditor General's audit report.
- Tests performed as part of, or in conjunction with, the current audit.
- Discussions with appropriate Retreat personnel regarding the specific prior audit finding and recommendation.

Prior Audit Result

Chapter I – Fire Emergency Response Team (FERT) members did not receive the required number of training hours.

Our prior audit disclosed that for the fiscal year ended June 30, 2003, available records indicated that eight of Retreat's active FERT members did not receive the Department required training. In addition, training records could not be located for one FERT member. The missed training hours ranged from one hour to twelve hours, with the average being 4.6 hours of missed training.

We recommended that Retreat should ensure that all FERT members receive the mandatory hours of training.

Status:

Our current audit revealed that Retreat has complied with the recommendation regarding FERT training. With the approval of the Superintendent at Retreat, the Institutional Safety Manager has organized a Support Team consisting of FERT members that have not completed all of the training hours required for the year but could help assist in the event of a fire emergency since they have all completed training at the FERT Academy, received numerous FERT training hours, and in some instances, have been trained as fire fighters in their communities. Only the individuals that have received the required training hours are considered FERT members. The Institution believes sufficient coverage exists in the event

Audit Findings

of a fire emergency. Other compensating controls established by Retreat in order to decrease the risk and severity of a fire emergency include; fire safety training for all staff, adherence to a fire safety program that limits an inmate's cell content as well as the chemicals and ignition sources present at the Institution.

Audit Report Distribution List

This report was initially distributed to the following:

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The Honorable Edward G. Rendell
Governor

The Honorable Gibson E. Armstrong
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Senate of Pennsylvania

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