

Audit



Highlights

Highlights of Legislative Auditor report on the Department of Corrections, Offender Trust Accounts, issued on December 14, 2006. Report # LA06-26.

Background

The Nevada Department of Corrections (NDOC) is responsible for the supervision, custody, treatment, care, security, and discipline of all offenders sentenced to imprisonment in the state system. The Department had expenditures of about \$225 million in fiscal year 2006 and their legislatively-approved budget included over 2,600 employees. Offenders were housed at 20 facilities throughout the State. The Department reported having an average offender population of 12,103 in fiscal year 2006.

Individual trust accounts are opened for offenders when they enter the prison system. Transactions and balances for these accounts are recorded in NDOC's internal accounting system called the Inmate Banking System (IBS). As an offender earns wages or is sent money from family or friends, it is recorded in this account. As an offender spends money for authorized purposes, it is likewise recorded in this account. The offenders' money is also recorded in the State's accounting system in the Prisoners' Personal Property Fund (PPF). As of the end of fiscal year 2006, the PPF had a cash balance of about \$3.7 million.

Purpose of Audit

The purpose of our audit was to determine whether the Department accurately accounted for and properly safeguarded offender trust accounts, and recovered the appropriate amounts from trust accounts for medical expenses and other assessments authorized by state laws, regulations, and policies. The audit focused on transactions involving offender trust accounts between July 1, 2004, and December 31, 2005.

Audit Recommendations

This audit report contains six recommendations to improve the Department's safeguarding of offender trust accounts. Three of the recommendations relate to performing monthly reconciliations to ensure all transactions are accurately recorded. The other three recommendations will enhance controls over the outside bank account used to disburse money from offender trust accounts.

The Department, in its response to our report, accepted the six recommendations.

Status of Recommendations

The Department's 60-day plan for corrective action is due on March 14, 2007. In addition, the six-month report on the status of audit recommendations is due on September 14, 2007.

Department of Corrections Offender Trust Accounts

Results in Brief

Although the Department accurately accounted for offender trust account transactions during the audit period, key reconciliations of the trust accounts were not always done timely or completely. Timely and complete reconciliations are needed to help ensure that errors or irregularities are detected and corrected promptly. In addition, we determined the Department recovered the appropriate amounts from trust accounts for medical expenses and other assessments authorized by state laws, regulations, and policies. Finally, although controls over the outside bank account used to disburse money from trust accounts are adequate, some enhancements are needed to further safeguard the funds.

Principal Findings

Monthly reconciliations of offender trust accounts for fiscal year 2005 were not complete, accurate, or fully documented. Specifically, the Department only had documentation that it performed reconciliations for four months in fiscal year 2005. In addition, those reconciliations had an average monthly unreconciled variance of almost \$100,000, indicating that the reconciliations were not complete. Furthermore, the variances fluctuated monthly by as much as \$18,500, indicating the reconciliations were not accurate.

In July 2005, the Department recognized that the reconciliation process needed improvement and decided to devote more resources to address the problems. These efforts improved the reconciliation process. Reconciliations performed in fiscal year 2006 had better documentation and were more accurate. However, not all of the problems have been identified and corrected. The reconciliations still contained unreconciled variances of about \$5,000, with the Inmate Banking System (IBS) reporting more cash than the State's accounting system. Though much improved, the fact that the reconciliation process continues to show an unreconciled variance which fluctuates monthly indicates that the process is not yet complete and should be carefully monitored.

Trust account reconciliations are critical for safeguarding trust funds held by the Department under state law. The Department of Corrections developed the IBS to fulfill its fiduciary obligation to fully and accurately account for offender money held in trust. Reconciling offender funds recorded in the IBS to the corresponding cash balance in the State's accounting system is a key control that helps reduce the risk of errors or misuse of funds by ensuring transactions are accurately recorded. We reported problems with the reconciliation of offender trust accounts in prior audits in 1988 and 1991. The 1991 audit was performed after the Department suspected an employee had taken about \$200,000 from the trust fund. The audits recommended that the Department prepare monthly reconciliations to reduce the risk of similar problems.

Controls over the outside bank account used to disburse money from offender trust accounts are adequate. These controls provide reasonable assurance that, among other things, all cash disbursements are properly initiated, supported, and approved as well as recorded accurately and timely. However, we did note some control weaknesses. Specifically, the Department did not always promptly remove employees as authorized check signers where this authority was no longer warranted. For example, the list of authorized check signers provided by the bank in May 2006 included a former employee who left the Department in 2001. Also, some checks were issued out of sequence and voided checks were not permanently defaced. Addressing these weaknesses will further safeguard offender trust funds by reducing the risk of inappropriate disbursements. In fiscal year 2006, the Department disbursed over \$3 million through this bank account.