



# **COMPLIANCE AND CONTROL AUDIT REPORT**

**El Dorado Correctional Facility Benefit Fund**

**A Report to the Legislative Post Audit Committee  
By the Legislative Division of Post Audit  
State of Kansas  
May 2006**

# ***Legislative Post Audit Committee***

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## ***Legislative Division of Post Audit***

The Legislative Post Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$10 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of government agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U. S. Government Accountability Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. These audit standards have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the representatives, three are appointed by the Speaker of the House and two are appointed by the House Minority Leader.

As part of its audit responsibilities, the Division is charged with meeting the requirements of the Legislative Post Audit Act which address audits of financial matters. Those requirements call for two major types of audit work.

First, the Act requires an annual audit of the State's financial statements. Those statements, prepared by the Department of Administration's Division of Accounts and Reports, are audited by a certified public accounting firm under contract with the Legislative Division of Post Audit. The firm is selected by the Contract Audit Committee, which comprises three members of the Legislative Post Audit Committee (including the Chairman and Vice-Chairman), the Secretary of Administration, and the Legislative

Post Auditor. This audit work also meets the State's audit responsibilities under the federal Single Audit Act.

Second, the Act provides for a regular audit presence in every State agency by requiring that audit work be conducted at each agency at least once every three years. Audit work done in addition to the annual financial statement audit focuses on compliance with legal and procedural requirements and on the adequacy of the audited agency's internal control procedures. These compliance and control audits are conducted by the Division's staff under the direction of the Legislative Post Audit Committee.

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Senator Anthony Hensley  
Senator Nick Jordan  
Senator Derek Schmidt  
Senator Chris Steineger

Representative John Edmonds, Vice-Chair  
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May 8, 2006

To: Members, Legislative Post Audit Committee

Senator Les Donovan, Chair  
Senator Anthony Hensley  
Senator Nick Jordan  
Senator Derek Schmidt  
Senator Chris Steineger

Representative John Edmonds, Vice-Chair  
Representative Tom Burroughs  
Representative Peggy Mast  
Representative Bill McCreary  
Representative Tom Sawyer

This report contains the findings, conclusions, and recommendations from our completed compliance and control audit of the *El Dorado Correctional Facility Benefit Fund*.

We would be happy to discuss this report with any legislative committees, individual legislators, or other State officials.

A handwritten signature in black ink that reads "Barbara J. Hinton". The signature is written in a cursive, flowing style.

Barbara J. Hinton  
Legislative Post Auditor



**EXECUTIVE SUMMARY**  
LEGISLATIVE DIVISION OF POST AUDIT

**Has the El Dorado Correctional Facility Handled Its Benefit Fund Moneys Appropriately?**

**The El Dorado Correctional Facility has used its Benefit Fund for appropriate purposes, but needs to improve controls over certain moneys in the Fund.** ..... page 2  
*The Facility's Jaycees sell food and other items to inmates and visitors during visitation hours. This activity amounts to about \$125,000 a year, more than 50% of the Fund's receipts and expenditures. The El Dorado Facility's financial procedures in this area were less extensive than those of other Kansas correctional facilities with similar operations, with an increased risk of loss or misuse. Improving cash-handling for token sales and product-handling procedures would reduce that risk.*

**Recommendations** .....page 4-5

**Appendix A: Agency Response** ..... page 6

This audit was conducted by Randy Tongier. If you need any additional information about the audit's findings, please contact Randy at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at [LPA@lpa.state.ks.us](mailto:LPA@lpa.state.ks.us).



# El Dorado Correctional Facility Benefit Fund

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The Legislative Division of Post Audit has conducted compliance and control audit work at the El Dorado Correctional Facility. Compliance and control audits can identify noncompliance with applicable requirements and poor financial-management practices. The resulting audit findings often identify needed improvements that can help minimize the risk of potential future loss or misuse of State resources.

Because locally-administered moneys are not subject to all the controls of the State's central financial procedures and because of concerns raised in a letter to our office, this audit focused on the Facility's handling of its Benefit Fund. The audit addresses the following specific question:

## **1. Has the El Dorado Correctional Facility handled its Benefit Fund moneys appropriately?**

To answer this question, we reviewed applicable statutes and requirements of the Division of Accounts and Reports, and identified standard financial-management practices. We also interviewed appropriate facility staff members, and reviewed a sample of fund records, reports, and related documents for fiscal years 2004 and 2005.

In conducting this audit, we followed all applicable government auditing standards.

## Has the El Dorado Correctional Facility Handled Its Benefit Fund Moneys Appropriately?

**ANSWER IN BRIEF:**

*The El Dorado Correctional Facility's procedures for expenditures of Benefit Fund moneys are reasonable, and Fund moneys were spent for appropriate purposes. In addition, procedures for handling most of the Fund's receipts were adequate. However, the Facility sells tokens for buying items from the inmate Jaycees, and the procedures for handling cash from those sales don't ensure that all moneys collected are deposited with the Business Office. In addition, Facility procedures for handling items sold by the inmate Jaycees need improvement to reduce the risk of loss or misuse. During fiscal year 2005, the Jaycees' financial activity accounted for about \$125,000 in receipts and \$120,000 in expenditures—both more than 50% of the Benefit Fund's totals. These findings are discussed in more detail in the sections that follow.*

***The El Dorado Correctional Facility Has Used Its Benefit Fund For Appropriate Purposes, But Needs To Improve Controls Over Certain Moneys In The Fund***

By statute, the benefit funds at State institutions can be used to pay the cost of activities or purchases for the residents' entertainment or welfare. Our test of expenditures found that Benefit Fund moneys were used for such things as entertainment for inmates, sports and other equipment, materials for resident projects such as woodworking, recreational materials, and the purchase of food and other items for sale to inmates and visitors by the Jaycees. These uses appear to us to be allowed and appropriate uses of Benefit Fund moneys.

A major source of funding for benefit funds is the transfer of profits from the operation of the institutions' canteens—which sell personal-care and other items to residents. At the El Dorado Correctional Facility, one of the “self-help” organizations—the Jaycees—sells food and other items to inmates and visitors during visitation times. Revenues from those sales are deposited in the Benefit Fund; and moneys used to purchase the items sold come from the Fund. According to Department of Corrections officials, several other Kansas correctional facilities have similar operations.

Receipts and expenditures of the El Dorado Facility's Benefit Fund for fiscal years 2004 and 2005 are summarized in **Figure I-1** on the next page. As the figure shows, the Jaycees' operation accounted for a significant portion of the Fund's financial activity.

The El Dorado Correctional Facility is responsible for developing and implementing procedures to ensure that Benefit Fund moneys are handled appropriately. Such procedures would include the following:

**Figure I-1  
Benefit Fund Receipts and Expenditures**

	FY 2004		FY 2005	
	AMOUNT	%	AMOUNT	%
<b>RECEIPTS:</b>				
Jaycees	\$ 104,658	48%	\$ 125,096	54%
Canteen Income	73,945	34%	85,129	37%
Other	38,228	18%	21,926	9%
<b>TOTAL</b>	<b>\$ 216,831</b>	<b>100%</b>	<b>\$ 232,151</b>	<b>100%</b>
<b>EXPENDITURES:</b>				
Jaycees	\$ 90,810	47%	\$ 120,494	55%
Library	27,364	14%	30,988	14%
Equipment	32,044	17%	20,726	9%
Supplies	19,156	10%	17,914	8%
Entertainment	10,252	5%	11,275	5%
Other	11,631	6%	18,432	8%
<b>TOTAL</b>	<b>\$ 191,257</b>	<b>100%</b>	<b>\$ 219,829</b>	<b>100%</b>

**Source:** Annual Benefit Fund financial reports submitted by El Dorado Correctional Facility to the Division of Accounts and Reports.

- accounting for the fund separately from other funds
- designating a fund custodian
- minimizing cash transactions and keeping moneys in a bank account
- requiring authorizations and approvals for payments
- reconciling bank accounts monthly
- preparing financial reports at least annually

To determine the procedures used by the Facility, we interviewed appropriate Facility officials, reviewed written procedures, examined financial reports, and tested a sample of transactions. We then compared those actual procedures to the applicable best practices and required procedures. The Facility had many of the appropriate and required practices in place. However, two exceptions are discussed below.

**Improving cash-handling procedures for token sales would reduce the risk of loss or misuse.** The Jaycees’ sale of food and other items during visitation is funded from two main sources—sales of “debit cards” to inmates and sales of tokens to visitors. Each type of sale is handled differently.

The sale of debit cards to inmates accounted for 59% of the operation’s receipts during fiscal year 2005. Those receipts are handled by transfers from the Trust Fund to the Benefit Fund. (Inmates buying the debit cards have their own moneys in the Facility’s Trust Fund.) That’s handled the same way as inmate purchases from the Canteen, and no cash is handled.

On the other hand, tokens, which accounted for 40% of fiscal year 2005 receipts, are sold for cash. According to Facility records, visitors paid almost \$50,000 for tokens in fiscal year 2005. The tokens are dispensed by a locked machine, and an employee on the activity staff regularly empties the cash from the machine and brings it to the Business Office. Our review of this area found the following two weaknesses in procedures:

- The machine isn't metered and the tokens aren't inventoried and tracked. That means there's no way to tell how much cash should be collected and brought to the Business Office that could be compared to the actual amount of cash turned in.
- One activity-staff person gathers the cash from the machine and takes it to the Business Office. Although that person counts the cash taken to the Business Office, and a Business Office staff member also counts the cash received, there's still no way to ensure that all cash collected from the machine actually is turned in. As a result, if there were any loss or theft of moneys, no one would know.

We discussed this situation with Department of Corrections officials to find out how other Kansas correctional facilities handle similar situations. Those officials told us that several other Kansas facilities had similar operations, that those facilities had metered token machines, and that in at least some cases the cash is collected from the token machines by one activity staff member and one Business Office person together.

***Recommendation***

To reduce the risk of loss or misuse of Jaycees' receipts, the El Dorado Correctional Facility's Business Office staff and activity staff should work together to improve procedures for handling cash from the sale of tokens. Options to consider include the following:

- a. Getting a token dispensing machine that's metered, or establish some system to inventory and track tokens put into the machine, so that the number of tokens dispensed can be determined. That number can be used to determine how much cash should be turned in to the Business Office, which can be compared to the amount actually turned in.
- b. Having a member of the Business Office staff accompany the activity staff when collecting cash from the token machine.

**Improving product-handling procedures also would reduce the risk of loss or misuse.** The Jaycees' dispensing of food and other items creates a risk that those items will be dispensed without an accompanying debit card charge or collection of tokens. Current procedures don't allow Facility officials to monitor the activity and see if that might be happening.

During our discussions with Department of Corrections officials, we were told that some of the other Kansas correctional facilities had two procedures in place to help address that risk. First, those individuals dispensing items record which and how many items they dispense. That allows for comparison to the number of charges made and tokens collected. Any significant discrepancies can be an indication of loss or misuse. Second, facility staff do periodic comparisons of receipts to the cost of items sold. The relationship between those amounts should be consistent with the pricing mark-up policies adopted. Again, any significant discrepancies can be an indication of loss or misuse.

***Recommendation***

To reduce the risk of loss or misuse of food and other items sold by the Jaycees, the El Dorado Correctional Facility's Business Office and activity staffs should work together to develop procedures for monitoring food and other items. Options to consider include the following:

- a. Having those individual dispensing food and other items record those items, doing a periodic comparison of items dispensed to receipts, and investigating any significant discrepancies.
- b. Doing periodic comparisons of sales and costs of goods sold to see if the relationships between those amounts are consistent with pricing mark-up policies, and investigating any significant discrepancies.

**Monthly accounting records for the Benefit Fund didn't reconcile with annual reports in fiscal year 2004, but procedures improved in fiscal year 2005.** Business Office staff maintain the Benefit Fund's accounting records in electronic form. Each month they print out a summary of transactions, and at the end of the fiscal year they use the final balances to prepare an annual report to file with the Division of Accounts and Reports.

As part of our work, we attempted to trace accounting transactions from the monthly listings to the annual report figures for the Jaycees' financial activity. During fiscal year 2004, monthly summaries as printed didn't always show all transactions, and the annual report didn't agree with the total of monthly balances. Business Office officials indicated that the timing of the monthly printouts would affect which transactions would be included in the monthly reports, and that the printing process wasn't always done on schedule. Because the differences we saw weren't large, and the fiscal year 2005 accounting records were in much better shape, we didn't pursue those earlier differences.



EL DORADO CORRECTIONAL FACILITY  
RAY ROBERTS, WARDEN

KATHLEEN SEBELIUS, GOVERNOR

April 6, 2006

Barbara J. Hinton  
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Dear Ms. Hinton:

In response to your letter dated March 29, 2006, concerning your audit of the Benefit Fund account at the EDCF, we submit the following follow-up based on your recommendations.

- A. The Jaycees have considered three options to correct the token dispensing issue. EDCF is ordering a new supply of tokens to revalue at a 2 for \$1.00 exchange. This is a change from the present 4 for \$1.00 rate resulting in doubling the value of the inventory and decreasing the number of times the token machine is serviced from several times a week to only once. In addition, when the machine is serviced, it will be done by two staff members: one from the Activity Department and the other from the Accounting Department to provide a "check and balance." This cooperative effort will include the counting of the money and also the tracking of the tokens being sold.
- B. The risk of loss or misuse of food and other items sold by the Jaycees will be more tightly controlled after reviewing the present inventory and control system in the operation. This complete review of the accounting system in the snack bar is being done by staff from Accounting, Activities, and the Deputy Warden of Support Services. By the end of this month, procedures will be implemented to compare the items dispensed to receipts; investigate any significant discrepancies; and perform periodic comparisons of sales and costs of goods sold to see if the relationships between those amounts are consistent with pricing mark-up policies. Shortfalls in the present system will be fixed. In addition, future significant discrepancies will be investigated.

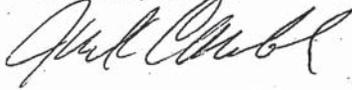
We feel that both of your recommendations can be fully implemented in the next month. The tokens are being ordered and staff review of the food inventory will begin

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immediately.

Should you have any questions concerning the updates please feel free to call me at 316-322-2008.

Sincerely Yours,



Jack Cauble  
Business Manager  
El Dorado Correctional Facility

cc Warden Ray Roberts  
Ken Luman, DWSS  
Dave Suttle, Activity Therapist II  
Beth Posey, Accountant III