



COMPLIANCE AND CONTROL AUDIT REPORT

Juvenile Correctional Facilities

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
July 2005**

Legislative Post Audit Committee

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 \$11 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-Chair-

man), 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.

LEGISLATIVE POST AUDIT COMMITTEE

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

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

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Barbara J. Hinton, Legislative Post Auditor

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LEGISLATURE OF KANSAS

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July 15, 2005

To: Members, Legislative Post Audit Committee

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

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

This report contains the findings, conclusions, and recommendations from our completed compliance and control audit of the State's juvenile correctional facilities.

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

Barbara J. Hinton
Legislative Post Auditor

EXECUTIVE SUMMARY

LEGISLATIVE DIVISION OF POST AUDIT

Question 1: Have the Juvenile Correctional Facilities Handled Their Locally Administered Moneys Appropriately?

The juvenile correctional facilities generally had adequate procedures to ensure appropriate handling of locally administered moneys, but financial reporting by some facilities didn't fully meet applicable requirements. page 2
The audit looked at canteen, trust, benefit, work-therapy, and employee-use funds. While procedures generally were appropriate, financial reporting for canteen funds at 3 of the facilities wasn't always as required by the Division of Accounts and Reports.

The Larned Juvenile Correctional Facility ended up using work-therapy fund moneys for an unallowed purpose. page 4
Work-therapy fund moneys are to be used for operating vocational training programs. During fiscal year 2004, the Facility paid about \$8,500 for physician's liability insurance with those moneys. Those moneys were used as an "emergency" source of funds to be repaid later from an appropriate source, but the repayment was disallowed.

Appendix A: Agency Response page 6

Juvenile Correctional Facilities

The Legislative Division of Post Audit has conducted compliance and control audit work at the State's juvenile correctional facilities, located at Topeka, Larned, Atchison, and Beloit. 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.

At the direction of the Legislative Post Audit Committee, this audit focused on the facilities' handling of their locally-administered funds. The audit addresses the following specific question:

1. Have the juvenile correctional facilities handled their locally administered 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.

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

Question 1: Have the Juvenile Correctional Facilities Handled Their Locally Administered Moneys Appropriately?

Answer in Brief:

The procedures used by the State's juvenile correctional facilities to handle their locally administered moneys generally were well-designed and operating effectively during the period we reviewed, with one exception. Financial reporting for the canteen funds wasn't always done as required by the Division of Accounts and Reports. In testing a sample of transactions, we found fund moneys were used for allowable purposes with one exception. One facility ended up making an inappropriate payment from its work therapy fund. These findings are discussed in more detail in the sections that follow.

The Juvenile Correctional Facilities Generally Had Adequate Procedures To Ensure Appropriate Handling of Locally Administered Moneys, But Financial Reporting by Some Facilities Didn't Fully Meet Applicable Requirements

The juvenile correctional facilities, located at Topeka, Larned, Atchison, and Beloit, are responsible for several different kinds of locally administered funds. A brief description of those funds follows:

- Canteen Fund – A canteen at each facility sells items such as snacks and personal-care products to residents. The Canteen Fund is used to deposit revenues and pay for inventory and any operating costs. A portion of a canteen's profits may be transferred to a facility's Benefit Fund.
- Trust Fund – Residents may receive moneys from relatives or work-study earnings. These moneys are deposited into the facility's Trust Fund, and may be used for such things as canteen purchases and restitution payments.
- Benefit Fund – The Benefit Fund pays the cost of activities or purchases for the residents' entertainment or welfare. A major source of moneys is commissions from pay phones used by the residents. Another source would be transfers of canteen profits.
- Work-Therapy Fund – The facilities may operate a sheltered workshop or similar activity where residents of the facility work. The Work-Therapy Fund receives revenues from the workshop and pays for the related expenses.
- Employee-Use Fund – Proceeds from employee fund-raising activities may be deposited into an Employee-Use Fund. Those moneys may be used for activities or purchases that benefit the employees of the facility.

During fiscal years 2004, the State's juvenile correctional facilities maintained canteen, benefit, and trust funds. The Larned facility also maintained work-therapy and employee-use funds. Expenditures from each of the facilities' funds for that fiscal year are shown in *Figure I-1*.

Figure I-1
Expenditures from Locally Administered Funds
Juvenile Correctional Facilities
Fiscal Year 2004

Type of Fund	Topeka Facility	Larned Facility	Atchison Facility	Beloit Facility
Canteen Fund	\$ 34,966	\$ 15,463	\$ 5,653	\$ 5,843
Benefit Fund	133,898	8,743	2,889	20,319
Trust Fund	136,981	27,780	5,590	18,251
Work Therapy Fund	N/A	24,096	N/A	N/A
Employee Use Fund	N/A	490	N/A	N/A

The facilities' are responsible for developing and implementing procedures to ensure that their locally administered moneys are handled appropriately. Such procedures would include the following:

- accounting for each fund separately
- 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 each 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. In general, the facilities had appropriate and required practices in place. One exception is discussed below.

Financial reporting for canteen funds at three of the facilities wasn't always as required by the Division of Accounts and Reports. The Division's Policy and Procedures Manual calls for canteen fund financial statements to be presented on the basis of generally accepted accounting principles, which involves a balance sheet and income statement prepared as a business would. The Topeka and Atchison facilities presented those statements, but hadn't accurately reported certain items, such as sales taxes payable and the related sales tax expense. The amounts of the mis-statements weren't large enough to make the statements misleading—on average less than \$500. The Larned facility presented only a statement of changes in cash balance, with no balance sheet or income statement.

The impact of not adhering to generally accepted accounting principles for canteen fund financial statements isn't clear. Nevertheless, adherence is a requirement of the Division of Accounts and Reports.

Applicable business office staff either weren't aware of the reporting requirements or weren't sure how to meet them. Those positions generally don't require the education or experience necessary for full understanding of that kind of financial reporting. In addition, the Policy and Procedures Manual doesn't provide the detailed level of guidance needed to allow preparation of the financial statements called for.

Recommendation

To ensure that the facilities meet applicable financial reporting requirements, the facilities' business office staff should work with the Division of Accounts and Reports to either:

- a. get appropriate guidance for facility staff so that they know how to prepare financial statements on the basis of generally accepted accounting principles, or
- b. if reporting on the basis of generally accepted accounting principles isn't necessary for the facilities' canteen funds, the Division of Accounts and Reports could exempt the facilities from that requirement or change the requirements of the Policy and Procedures Manual altogether.

***The Larned
Juvenile Correctional
Facility Ended Up
Using Work-Therapy
Fund Moneys for an
Unallowed Purpose***

According to State law, work-therapy fund moneys are for operating a sheltered workshop or other similar vocational-training activity. During fiscal year 2004, the facility used its work therapy fund to pay for physician's liability insurance. The amount of the annual premium was about \$8,500. The payment should have been made from the facility's General Fund appropriation, and normally it would have been.

Facility officials told us that, because of an extended employee illness in the business office, the insurance premium notice was overlooked until only a few days before its due date. Because the Facility couldn't process the payment quickly enough using normal procedures (processing a warrant through Topeka), it paid the premium out of its Work-Therapy Fund (writing a check on a local bank account).

The Facility planned to reimburse the Work-Therapy Fund from its General Fund appropriation. However, when it attempted to do that, the payment was disallowed because the Facility hadn't gotten com-

petitive bids for the insurance coverage. The Facility appealed that decision, but the appeal was denied. Since that time, the Facility has attempted to informally repay the Work-Therapy Fund by using its General Fund appropriation moneys to purchase items that normally would be purchased from the Work-Therapy Fund. Because it hasn't kept track of those purchases, it's not clear whether the repayment has been made.

Because the inappropriate payment from the Work-Therapy Fund was made during a period when a key staff person was ill and not as part of routine processing, it seems to us that no changes in procedures are needed.

***The Juvenile
Correctional Facilities
Have Adequately
Addressed Findings and
Recommendations of the
Previous Audit***

The previous audit of the juvenile correctional facilities found that the Topeka and Beloit facilities didn't transfer moneys from their canteen funds to their benefit funds as required by the appropriation acts. For fiscal year 2004, the appropriation acts didn't direct any such transfers. The previous audit also found that the Beloit facility didn't have complete written procedures for handling its locally-administered funds. The current audit found that the Beloit facility had a complete set of written procedures that covered each of its funds.

APPENDIX A

Agency Response

On May 27, 2005, we provided a copy of the draft audit report to the juvenile correctional facilities and the Juvenile Justice Authority, the oversight agency for the facilities. The Authority prepared a joint response, which is included as this Appendix.

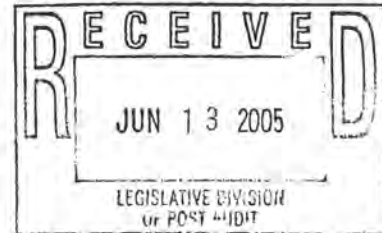


JUVENILE JUSTICE AUTHORITY
DON JORDAN, ACTING COMMISSIONER

KATHLEEN SEBELIUS, GOVERNOR

June 9, 2005

Ms. Barbara J. Hinton
Legislative Post Auditor
800 SW Jackson Street, Suite 1200
Topeka, Kansas 66612-2212



Dear Ms. Hinton:

Thank you for the opportunity to review and comment on the draft copy of your compliance and control audit report addressing the handling of locally administered funds at the Juvenile Justice Authority's Correctional Facilities.

We concur with the findings of the report and would like to provide the following response regarding the findings and recommendations contained in the audit report:

Financial reporting for canteen funds at three of the facilities wasn't always as required by the Division of Accounts and Reports.

Response: The facilities will take appropriate steps to ensure that canteen funds will be reported in accordance with the Division of Accounts and Reports' Policy and Procedure Manual. Specific to the findings of this report, this will include the generation of an Income Statement and Balance Sheet, and the accurate reporting of items in accordance with generally accepted accounting principles.

Thank you again for this opportunity to respond. If you have any questions or concerns do not hesitate to contact Dennis Casarona, Deputy Commissioner at 785-296-4213.

Sincerely,

Don Jordan
Acting Commissioner

cc: Dennis Casarona, Deputy Commissioner
Michael Dempsey, TJCF/KJCC Superintendent
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