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We have completed an audit of the Department of Corrections, Offender Trust Accounts. This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions. The results of our audit, including findings, conclusions, recommendations, and the Department's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Department of Corrections for their assistance during the audit.

Respectfully presented,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA  
Legislative Auditor

November 14, 2006  
Carson City, Nevada

STATE OF NEVADA  
DEPARTMENT OF CORRECTIONS  
OFFENDER TRUST ACCOUNTS

AUDIT REPORT

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# **EXECUTIVE SUMMARY**

## **DEPARTMENT OF CORRECTIONS OFFENDER TRUST ACCOUNTS**

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### **Background**

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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.

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### **Purpose**

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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.

## EXECUTIVE SUMMARY

### DEPARTMENT OF CORRECTIONS OFFENDER TRUST ACCOUNTS

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## Results in Brief

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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.

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## Principal Findings

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- Monthly reconciliations of offender trust accounts for fiscal year 2005 were not complete, accurate, or fully documented. Subsequent reconciliations were more accurate and timely; however, unreconciled variances remain. When reconciliations are not performed properly, the Department cannot be assured that money recorded in offender accounts is actually in the bank. Problems with the reconciliations have been noted in two prior audits of the Department. (page 9)
- 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

## **EXECUTIVE SUMMARY**

### **DEPARTMENT OF CORRECTIONS OFFENDER TRUST ACCOUNTS**

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remove employees as authorized check signers where this authority was no longer warranted. 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. (page 12)

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## **Recommendations**

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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. (page 20)

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## **Agency Response**

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The Department, in its response to our report, accepted all six recommendations. (page 18)

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# Introduction

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## **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 Director of the Department supervises the administration of all institutions and facilities of the Department and must take proper measures to protect the health and safety of staff and offenders. The Director also administers the Department under the direction of the Board of State Prison Commissioners and establishes regulations with the approval of the Board.

Authority over operations of the prison system is granted to the Board by the Nevada Constitution. The Board is comprised of the Governor, Secretary of State, and the Attorney General. In 2001, legislation was passed to change the agency's name from the Department of Prisons to the Department of Corrections. NDOC's mission is to protect the community through safe, humane, and efficient confinement of offenders; to maintain sensitivity to the rights and needs of victims; and to provide opportunities for offenders to successfully reenter the community through education, training, treatment, work, and spiritual development.

### **Facilities and Organization of Department**

In fiscal year 2006, offenders were housed at 20 facilities throughout the State: 8 institutions (prisons and correctional centers), 10 conservation camps, 1 restitution center, and 1 transitional center. The Department is divided into five main functional areas: Operations, Correctional Programs, Medical, Prison Industries, and Support Services. Support Services staff manage the budget, offender trust accounts, management information systems, and other support activities such as procurement and offender stores. Inmate Services, a section within Support Services, is responsible for accurately accounting for offender trust accounts and related transactions. The transactions include the collection of money for various charges, including restitution, medical co-pays, and offender store purchases.

## **Expenditures and Funding**

Actual expenditures for NDOC for fiscal year 2006 totaled \$225 million, with personnel costs accounting for about 76% of the total. For fiscal year 2006, the actual cost per offender was about \$18,600 annually or about \$51 daily. The Department is primarily funded with General Fund appropriations. The Department's legislatively approved budget for fiscal year 2006 included 2,655 full-time equivalent positions from 24 budget accounts. This excludes the Prison Industries Fund and Offenders' Store Fund, which do not receive any General Fund appropriations. Funding for Inmate Services comes from net revenues of the Store Fund operations, including telephone commissions.

## **Offender Trust Accounts**

Offenders have a trust account opened when they enter the prison system. Each trust account has five sub-accounts: Trust Account 1, Trust Account 2, Savings, Department Charges 1, and Department Charges 2. An offender's account balance is the combined total of the five sub-accounts. Each sub-account is explained below:

- **Trust 1** is the main sub-account used to account for most individual offender transactions. Receipts include internal and external payroll and money received from family, friends, and other sources outside the prison system. Money arrives primarily through a lockbox arrangement with the bank and through money transfer services. These receipts are subject to authorized deductions including: room and board, restitution, family support, and repayment for certain offender-caused damages and injuries. Department policy guarantees that the offender will retain at least 20% of money received to be used for approved personal expenditures, such as prison store purchases.
- **Trust 2** is used for receipts that are not subject to deductions. It is used primarily for the Holiday Program, which allows offenders to receive up to \$100 without deductions. Certain tort awards are also exempt from deductions.
- **Savings** is used to account for mandatory deductions set aside to assist offenders upon release. Deductions stop when an offender has accumulated \$200 in his savings account. Without special authorization, money in this sub-account cannot be disbursed except when an offender is released or passes away.
- **Department 1** is used for certain charges to offender accounts authorized by NRS 209.246, including co-pays for medical services. If an offender has insufficient money to pay for the charges, the expenses are paid from the Inmate Welfare Account (IWA) within the Offenders' Store Fund. When the offender receives money, it is used to reimburse the IWA.

- **Department 2** is used to account for certain legal-related costs incurred by indigent offenders. These include costs for copies of legal documents. These costs are capped at \$100.

The Department reported having an average offender population of 12,103 in fiscal year 2006. Exhibit 1 shows the number of offenders at each facility.

**Exhibit 1**

**Average Number of Offenders  
By Facility for Fiscal Year 2006**

<b>Facility</b>	<b>Number of Offenders</b>
High Desert State Prison	2,404
Southern Desert Correctional Center	1,569
Lovelock Correctional Center	1,534
Northern Nevada Correctional Center	1,271
Ely State Prison	1,072
Nevada State Prison	882
Southern Nevada Women's Correctional Center	574
Warm Springs Correctional Center	489
Other <sup>(1)</sup>	402
Jean Conservation Camp	279
Stewart Conservation Camp	234
Indian Springs Conservation Camp	216
Pioche Conservation Camp	179
Ely Conservation Camp	143
Humboldt Conservation Camp	139
Tonopah Conservation Camp	135
Carlin Conservation Camp	134
Wells Conservation Camp	124
Casa Grande Transitional Housing	121
Silver Springs Conservation Camp	116
Northern Nevada Restitution Center	86
<b>Total</b>	<b>12,103</b>

Source: Department of Corrections' records.

<sup>(1)</sup> Includes offenders in the Department's legal custody, but not located at any facility shown above. This includes offenders in residential confinement, out-of-state, etc.

The offenders' money is 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. In fiscal year 2006, the PPF had receipts of about \$16.7 million, almost all of which was from gifts and inmate wages. PPF disbursements were over \$16 million and are summarized in Exhibit 2.



**Prisoners' Personal Property Fund  
Disbursements for Fiscal Year 2006**

<b>Disbursement Type</b>	<b>Amount</b>
Store Purchases	\$ 9,827,988
Offender Disbursements	3,079,906
Room and Board Charges	2,005,692
Victims of Crimes Payments	370,937
Inmate Welfare Account Payments	319,506
Restitution Payments	300,579
Prison Industry Capital Improvement	160,928
Medical Payments	63,155 <sup>(1)</sup>
Miscellaneous	28,465
<b>Total</b>	<b>\$16,157,156</b>

Source: State's accounting system.

<sup>(1)</sup> Reimbursements of \$981,688 were also made to the Prison Medical General Fund budget account from the Offenders' Store Fund.

Individual account transactions and balances are maintained in NDOC's internal accounting system called the Inmate Banking System (IBS). NDOC anticipates replacing this system with a module that will be integrated with the new system for Inmate Management.

**Scope and Objectives**

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218.737 to 218.893. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This audit focused on transactions involving offender trust accounts between July 1, 2004, and December 31, 2005. The objectives of our audit were 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.

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## **Findings and Recommendations**

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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.

### **Trust Account Reconciliations Not Performed Accurately and Timely**

Monthly reconciliations of offender trust accounts for fiscal year 2005 were not complete, accurate, or fully documented. Subsequent reconciliations have been more accurate and timely; however, unreconciled variances remain. When reconciliations are not performed properly, the Department cannot be assured that money recorded in offender accounts is actually in the bank. Problems with the reconciliations have been noted in two prior audits of the Department.

#### **Reconciliations Are Critical for Safeguarding Trust Funds**

Trust account reconciliations are critical for safeguarding trust funds held by the Department under state law. NRS 209.241 allows the Director of the Department of Corrections to accept money belonging to an offender at the time of his incarceration or afterward received by gift, inheritance or the like, or earned during incarceration. The money is recorded in a trust fund called the Prisoners' Personal Property Fund (PPF). The law requires an offender to deposit all money that he receives into his individual account in the PPF. However, the State's accounting system, the Integrated Financial System (IFS), is not set up to account for funds by individual offenders. Therefore, the Department of Corrections developed the Inmate Banking System (IBS) to fulfill its fiduciary obligation to fully and accurately account for offender money held in trust. The

IBS tracks deposits, disbursements, transfers, and balances of individual offender trust accounts. 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.

**Reconciliations Were Insufficient**

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. Exhibit 3 provides detail on reconciliations performed for each month in fiscal year 2005.

**Exhibit 3**

**Prisoners' Personal Property Fund  
Monthly Reconciliations of the IBS to the IFS  
Fiscal Year 2005**

Month	Adjusted Cash Balance per IBS	Adjusted Cash Balance per IFS	Unreconciled Variance (IFS over IBS)
July 2004			
August		[Reconciliations not done]	
September	\$2,684,255	\$2,786,946	\$102,691
October	\$2,681,844	\$2,765,997	\$ 84,153
November	\$2,737,178	\$2,825,096	\$ 87,918
December		[Reconciliation not done]	
January 2005	\$2,761,753	\$2,876,036	\$114,283
February			
March			
April		[Reconciliations not done]	
May			
June			

Source: Auditor review of Department records.

A few factors contributed to the ineffectiveness of these attempts at reconciliation. First, the Department lacked complete written procedures on the reconciliation process. Second, there was turnover in a key position. The employee who was responsible for the reconciliations left the agency and the replacement also left after a few months. Third, there was little evidence of supervision and monitoring of staff efforts to ensure the reconciliations were performed timely and accurately.

### **Recent Efforts Resulted in Improvements**

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. However, not all of the problems have been identified and corrected. In addition, these efforts to correct past problems delayed completion of reconciliations for fiscal year 2006.

In July 2005, in the course of its annual internal control review, the Department recognized that reconciliations of the IBS to the IFS were not always done. Additional resources were dedicated to determine that past transactions were accurately recorded. This included verifying the accuracy of transactions recorded in both systems for the previous 3 fiscal years and bringing the reconciliations up-to-date. The Department's review of prior fiscal years identified few errors requiring only minor adjustments.

The Department then directed its efforts to reconciling trust account transactions for July 2005 and later months. Because of the need to verify the accuracy of prior years' transactions, the reconciliations for the months of July 2005 through December 2005 were not completed until June 2006. Subsequent reconciliations have been timelier. We reviewed reconciliations for two consecutive months in fiscal year 2006 including verification that receipts and disbursements were accurate. These reconciliations had better documentation and were more accurate. Nevertheless, the reconciliations still contained unreconciled variances of about \$5,000, with the IBS reporting more cash than the IFS. 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.

## **Recommendations**

1. Prepare monthly reconciliations of offender trust funds recorded in the Inmate Banking System to the State's accounting system in a timely manner.
2. Develop detailed written procedures to help ensure that reconciliations are prepared accurately and are properly documented and reviewed.
3. Provide management oversight to ensure reconciliations are performed.

## **Minor Improvements Needed Over Trust Bank Account**

Controls over the outside bank account used to disburse offender trust funds are adequate. However, we did note some control weaknesses. 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.

By law, the Department may allow an offender to expend money for personal needs. In addition, the law requires the Department to pay an offender, upon his release, the remaining balance in the offender's individual account. To accomplish this, the Department established an outside bank account to disburse money from offender trust accounts.

Our audit found that controls over this outside bank account provided 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 three control weaknesses.

First, the Department did not always promptly remove employees as authorized check signers when they were no longer in a position where this authority was 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. Another employee, who was no longer responsible for signing checks, also was on the authorized list. When employees no longer are responsible for signing checks and are

left on the bank's list of authorized signers, the bank is unaware they are not authorized. This increases the risk of unauthorized or fraudulent checks being cashed. Persons should be promptly removed from the authorized list when they leave the agency or their responsibilities no longer require them to be authorized signers.

Second, checks were not always issued sequentially. We identified several instances where checks were issued out of numerical order. Department procedures and sound internal control practices require that checks be issued in sequential order. When checks are issued out of sequence, the risk of an unauthorized check being issued increases.

Third, the Department defaces voided checks by writing "void" across the document. In the past, this has been an acceptable practice to prevent voided checks from being negotiated. However, with the advent of new techniques, such as "check washing," this practice still poses some risk. A more permanent defacement of the check would help lessen the risk of a check being altered and cashed. For example, removing the signature area from voided checks would help prevent them from being negotiated.

### **Recommendations**

4. Promptly notify the bank when employees leave the agency or their responsibilities do not warrant inclusion on the list of authorized signatures for the outside bank account.
5. Ensure checks are issued sequentially from the outside bank account.
6. Permanently deface voided checks to prevent them from being negotiated.

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# Appendices

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## Appendix A Audit Methodology

To gain an understanding of the Department's responsibilities related to offender trust accounts, we interviewed Department staff and reviewed state laws, regulations, policies, and procedures significant to the safeguarding of offender trust accounts. We also reviewed the Department's prior audit reports, financial reports, budgets, minutes of legislative committees, minutes of the Board of State Prison Commissioners, and other information concerning offender trust accounts. We documented and assessed Department internal controls over offender accounts including offender payrolls, deductions, and the outside bank account used to disburse money from offender trust accounts. We reviewed the process for reconciling the Department's accounting records for individual offender trust accounts to the State's accounting records.

To determine if the Department accurately accounted for and safeguarded offender trust accounts, we tested 40 offender payroll receipts (20 randomly and 20 judgmentally) to verify that receipts were properly documented and posted to the correct offender accounts. We also reviewed offender accounts for unusual balances and transactions. Based on our review, we randomly and judgmentally selected 41 accounts for testing. These included accounts with large or negative balances, large deposit amounts, or high volumes of transactions. In addition, we reviewed transactions after release dates, transfers between inmate accounts, and checks written from non-inmate accounts.

To verify disbursements from offender trust accounts were appropriate, we selected 40 offender disbursements (20 randomly and 20 judgmentally) from the IBS to verify they were properly authorized and correctly posted. We also reviewed all 11 debit transactions in PPF revenue accounts over \$10,000 to verify they were properly computed, authorized, and recorded in both the State's accounting system and the Inmate Banking System. We did the same for all four credit transactions over \$10,000 recorded in PPF expenditure accounts. We also reviewed all 35 accounts added



manually to the IBS to verify they were proper and necessary. Lastly, we confirmed that offenders receive periodic statements of their account activity as required by Department policy.

To determine if the Inmate Banking System used to account for individual offender trust accounts was properly reconciled to the State's accounting system, we met with Department personnel and obtained copies of system reconciliations performed for the audit period. We analyzed the reconciliations and identified unreconciled variances. Also, we reviewed the reconciliations for November and December 2005 for process logic, accuracy, and support.

To verify that internal controls over the outside bank account used to disburse offender funds were adequately designed, we reviewed Department policies and procedures and interviewed Department personnel. To verify that these controls were working as intended, we selected 40 checks (30 randomly and 10 judgmentally) from the bank account and reviewed them for proper authorization, support, and other key control and compliance requirements. Also, we verified the bank account was authorized by state law and we determined whether the bank's list of authorized check signers was current. Further, we accounted for the numerical sequence of checks and all voided check documents. Finally, we reviewed three monthly bank reconciliations for timeliness and completeness.

To determine if the Department recovered the appropriate amounts from offender trust accounts, we reviewed Department regulations to verify they were consistent with state laws that establish and authorize deductions from offender accounts. We verified that the IBS computer instructions were aligned with the regulations. Then we judgmentally selected 25 deduction transactions, including: prison industries, room and board, victims of crime, and restitutions, to verify correct calculation and transfers according to state laws and regulations. Additionally, we judgmentally selected 30 Medical Division notifications of medical expenses to verify they were correctly deducted from offender trust accounts. Finally, we randomly and judgmentally selected 15 repayments to the Inmate Welfare Account from offender trust accounts for proper authorization and correct posting of the transactions.

Our audit work was conducted from January through August 2006 in accordance with generally accepted government auditing standards.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Director of the Department of Corrections. On November 1, 2006, we met with agency officials to discuss the results of our audit and requested a written response to the preliminary report. That response is contained in Appendix C, which begins on page 18.

Contributors to this report included:

Gary J. Kulikowski, CPA  
Deputy Legislative Auditor

Grant Dintiman, CPA  
Deputy Legislative Auditor

David Steele, CPA  
Deputy Legislative Auditor

Richard A. Neil, CPA  
Audit Supervisor

Stephen M. Wood, CPA  
Chief Deputy Legislative Auditor

## **Appendix B**

### **Prior Audit Recommendations**

As part of our audit, we reviewed recommendations from two prior audits related to offender trust accounts conducted in 1988 and 1991. We determined that 19 recommendations were within the scope of our current audit. We evaluated the status of these recommendations and determined that 16 were fully implemented and 3 were partially implemented. Two of the partially implemented recommendations related to the reconciliation of the Inmate Banking System to the State's accounting system. The other partially implemented recommendation dealt with the sequencing of checks. We have modified and repeated these recommendations in the current audit.

**Appendix C**  
**Response From the Department of Corrections**

**BOARD OF COMMISSIONERS**  
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**DEPARTMENT OF CORRECTIONS**

*Leading Nevada Corrections into the Future*

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November 13, 2006

Paul V. Townsend, CPA, Legislative Auditor  
Legislative Counsel Bureau  
Legislative Building  
401 S. Carson Street  
Carson City, Nevada 89702-7011

Dear Mr. Townsend:

We have accepted all six of the recommendations of the audit report on the Department of Corrections, Offender Trust Accounts for the period July 1, 2004- December 31, 2005. The following supplemental information is provided for each recommendation.

**Recommendation Number 1:** Prepare monthly reconciliations of offender trust funds recorded in the Inmate Banking System to the State's accounting system in a timely manner.

Response: Monthly reconciliations of offender trust funds in the Inmate Banking System will be reconciled to the State's accounting system within (30) days of the month end close. It is the responsibility of the Chief of Inmate Services to insure that the reconciliations are done accurately and within the time frame noted.

Quarterly, during internal control reviews, the Chief of Fiscal Services will monitor progress and verify compliance with this recommendation.

**Recommendation Number 2:** Develop detailed written procedures to help ensure that reconciliations are prepared accurately and are properly documented and reviewed.

Response: This recommendation has already been implemented. Written detailed procedures on the PPF monthly reconciliation are attached as Exhibit A.

**Recommendation Number 3:** Provide management oversight to ensure reconciliations are performed.

Response: Management oversight is now in place where the person preparing the PPF reconciliation signs pertinent worksheets. The reconciliation is then presented to the Chief of Inmate Services who performs the review function and signs the pertinent worksheets. The reconciliation is then presented to the Chief of Fiscal Services who signs the pertinent documents as a final review.

**Recommendation Number 4:** Promptly notify the bank when employees leave the agency or their responsibilities do not warrant inclusion on the list of authorized signatures for the outside bank account.

Response: The bank is promptly notified of any additions or deletions on the list of authorized signatures for the outside bank account with written confirmation from the bank as to the action performed. Attached please find Exhibit B reflecting the procedure.

**Recommendation Number 5:** Ensure checks are issued sequentially from the outside bank account.

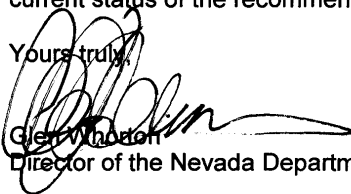
Response: The check log for manually written checks at Southern Administration will be carefully monitored to insure checks are listed sequentially. The Chief of Inmate Services will monitor compliance with this recommendation quarterly. The Chief of Fiscal Services will monitor compliance during the annual internal control review.

**Recommendation Number 6:** Permanently deface voided checks to prevent them from being negotiated.

Response: Voided checks are permanently defaced by writing "void" across the face of the check and removing the signature lines by the staff member performing the void function with immediate supervisor oversight. The voided checks are then checked during the bank reconciliation process to make certain the actions mentioned above are properly performed. A final review of the bank reconciliation is performed by the Chief of Inmate Services which includes the verification of the actions above.

Also attached is a spreadsheet detailing each recommendation, our plan and the current status of the recommendation as required pursuant to NRS 218.8235.

Yours truly,



Glen Whodan  
Director of the Nevada Department of Corrections

CC: Darrel Rexwinkel, Deputy Director of Support Services  
Lori Bagwell, Chief of Fiscal Services

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**Department of Corrections  
Response to Audit Recommendations**

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Prepare monthly reconciliations of offender trust funds recorded in the Inmate Banking System to the State's accounting system in a timely manner .....	<u>  X  </u>	<u>      </u>
2	Develop detailed written procedures to help ensure that reconciliations are prepared accurately and are properly documented and reviewed.....	<u>  X  </u>	<u>      </u>
3	Provide management oversight to ensure reconciliations are performed.....	<u>  X  </u>	<u>      </u>
4	Promptly notify the bank when employees leave the agency or their responsibilities do not warrant inclusion on the list of authorized signatures for the outside bank account .....	<u>  X  </u>	<u>      </u>
5	Ensure checks are issued sequentially from the outside bank account.....	<u>  X  </u>	<u>      </u>
6	Permanently deface voided checks to prevent them from being negotiated.....	<u>  X  </u>	<u>      </u>
	TOTALS	<u>    6    </u>	<u>    0    </u>