

*The County of Chester
Office of the Controller
Internal Audit Department*



*Audit Report
Chester County Prison Canteen Fund
For the year ended December 31, 2009*

Valentino F. DiGiorgio, III, Controller

COUNTY OF CHESTER
AUDIT OF THE CHESTER COUNTY PRISON CANTEEN FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

Warden D. Edward McFadden
501 Wawaset Road
West Chester, PA 19382

COUNTY OF CHESTER
AUDIT OF THE CHESTER COUNTY PRISON CANTEEN FUND

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COUNTY OF CHESTER OFFICE OF THE CONTROLLER

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VALENTINO F. DIGIORGIO, III
Controller

April 6, 2010

D. Edward McFadden, Warden
501 Wawaset Road
West Chester, Pennsylvania 19382

We have audited the accounts of the *Chester County Prison Canteen Fund (Canteen)* as of December 31, 2009, and have compiled the attached Statement of Assets and Liabilities and the related Statement of Cash Receipts, Disbursements, and Cash Balances for the year then ended. It is Internal Audit's responsibility to audit annually the accounts of the *Canteen* and to report the results of such audits to the Chester County Prison Board and Chester County Prison management. It is management's responsibility to maintain, update, and reconcile these accounts on a continuous basis.

Our audit was conducted in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit in a manner that will provide *reasonable assurance* that the accounts are free of material misstatement and that amounts are properly supported and approved.

As described in Note 1, the accompanying financial statements are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Accordingly, the statements referred to above are not intended to present the financial position and results of operations of the *Canteen* in conformity with generally accepted accounting principles.

In our opinion, the accounts of the *Canteen* are stated fairly as of December 31, 2009. Consequently, the corresponding financial statements prepared by Internal Audit present fairly, in all material respects, the assets and liabilities of the *Canteen* as of December 31, 2009, and the cash receipts, disbursements, and cash balances for the year then ended.

In accordance with Government Auditing Standards, we have also issued a report dated April 6, 2010, which summarizes our evaluation of the internal control structure of the *Canteen* and comment on its compliance with laws and regulations.

Valentino F. DiGiorgio, III
Controller

COUNTY OF CHESTER
CHESTER COUNTY PRISON CANTEEN FUND
STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2009

Assets

Cash – Checking Account	\$ 1,017,992
Total Assets	<u>\$ 1,017,992</u>

Liabilities and Equity

Accounts Payable	\$ 67,322
Due to Inmate Fund	22
Restricted Fund Balance	<u>950,648</u>
Total Liabilities and Equity	<u>\$ 1,017,992</u>

The accompanying notes are an integral part of these financial statements.

COUNTY OF CHESTER

CHESTER COUNTY PRISON CANTEEN FUND

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CASH BALANCES
CANTEEN ACCOUNT**

FOR THE YEAR ENDED DECEMBER 31, 2009

Cash Balance – Checking Account, January 1, 2009		\$ 1,088,279
Receipts:		
Canteen Sales	\$ 817,398	
Telephone Commissions	221,209	
Interest Income	10,147	
Miscellaneous Income	<u>3,729</u>	
Total Receipts		<u>\$ 1,052,483</u>
Disbursements:		
County General Fund	\$ 1,021,649	
Postage	13,600	
Misc. Disbursements	<u>87,520</u>	
Total Disbursements		<u>\$ 1,122,769</u>
Excess of disbursements over receipts		<u>(70,287)</u>
Cash Balance – Checking Account, December 31, 2009		<u>\$ 1,017,992</u>

The accompanying notes are an integral part of these financial statements.

COUNTY OF CHESTER
CHESTER COUNTY PRISON CANTEEN FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

Note 1: Summary of Accounting Policies

Background and Reporting Entity

The *Canteen* was an enterprise fund that consisted of monies generated from the sale of merchandise in the prison commissary. Any profit generated was placed in the fund checking account and used for the purchase of inventory for resale in the *Canteen* and items to benefit the health and welfare of the inmates. As of March 3, 2005, the prison commissary was subcontracted out to Keefe Commissary Network (see Note 3). The *Canteen* now consists of monies received from commissions on gross canteen sales, telephone commissions, and miscellaneous income from car washes, visitor photos, postage sales, copies, and the interest earned on the Inmate Fund and transferred to the *Canteen* account. The *Canteen* account monies are used to reimburse the Inmate Fund account for any bank service charges, to pay for postage advances, and to purchase items beneficial to the general inmate population.

Basis of Accounting

The books and records of the *Canteen* are maintained on the cash basis of accounting. Consequently, receipts are recognized when received into the fund rather than when assessed or otherwise due, and disbursements are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying statements do not present the assets, liabilities, receipts, and disbursements in accordance with generally accepted accounting principles.

Note 2 – Legal Matters

Our audit disclosed no pending litigation involving the Canteen of the Chester County Prison for the year ended December 31, 2009. There are ongoing lawsuits involving the Chester County Prison and its Warden (D. Edward McFadden) for the year ended December 31, 2009. However, the outcome of any ongoing litigation will have no effect on the assets of the Canteen Fund.

Note 3 – Agreement for Contracted Services

On March 3, 2005, an agreement was made and entered by and between the County of Chester and Keefe Commissary Network. From this agreement, the County of Chester now uses the services of Keefe Commissary Network to provide Inmate Commissary Services for the *Canteen*.



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April 6, 2010

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Report on Compliance and on Internal Controls Over Financial Reporting

In accordance with Government Auditing Standards, the scope of our audit included an examination and evaluation of the adequacy and effectiveness of the *Canteen's* system of internal control and the *Canteen's* quality of performance in carrying out assigned responsibilities. The primary objectives of internal controls include the following:

- Safeguarding of assets
- Reliability and integrity of information
- Compliance with policies, procedures, laws and regulations
- Compliance with provisions of contracts and lease agreements.

In addition, generally accepted auditing standards (GAAS) require that auditors obtain an understanding of the internal control process and assess control risk in financial statement audits. For a financial statement audit, internal control is defined as a process that is designed to provide reasonable assurance that objectives regarding the reliability of financial reporting, the effectiveness and efficiency of operations, and the compliance with applicable laws and regulations are achieved. The internal control process consists of five components. They are the *control environment*, *risk assessment*, *information and communication*, *monitoring*, and *control activities*.

The *control environment* sets the tone of the organization and is the foundation for all other components of internal control. The collective effect of various important factors defines the *control environment*, which in turn establishes, enhances, or mitigates the effectiveness of policies and procedures. These important factors include the entity's organizational structure and method of assigning authority and responsibility.

The *risk assessment* is the entity's identification and analysis of relevant risks to the achievement of its objectives, and forms the basis for determining how the risks should be managed.

Information and communication are the identification, capture, and exchange of information in a form and time frame that enables people to carry out their responsibilities.

Monitoring is a process that assesses the quality of internal control performance over time.

Report on Compliance and on Internal Controls Over Financial Reporting (continued)

Control activities are the policies and procedures that help ensure management directives are carried out. These policies and procedures may be classified as:

- Authorization
- Segregation of duties
- Documentation
- Physical safeguards
- Independent checks and balances.

Our audit disclosed no significant deficiencies or material weaknesses that, in our opinion, pose a significant risk to the *Canteen* or the County of Chester.

Findings of a lesser significance in the area of the internal control structure specifically:

- Internal control with respect to authorization of cash disbursements

have been addressed under separate cover with the management of the *Canteen* for its action and/or response. Copies of the Management Letter will be made available upon request.

This report is intended for the information of the management of the Chester County Prison Canteen Fund and the Chester County Prison Board. This report is, however, a matter of public record and its distribution is not limited.



Valentino F. DiGiorgio, III
Controller

COUNTY OF CHESTER
CHESTER COUNTY PRISON CANTEEN FUND
SUMMARY OF EXIT CONFERENCE
FOR THE YEAR ENDED DECEMBER 31, 2009

An exit conference was not warranted for the audit of the Prison Canteen Fund. Warden D. Edward McFadden has accepted the Audit Report and Management Letter as presented.