

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



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

Valentino F. DiGiorgio, III, Controller

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

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

COUNTY OF CHESTER
AUDIT OF THE CHESTER COUNTY PRISON INMATE FUND
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COUNTY OF CHESTER OFFICE OF THE CONTROLLER

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VALENTINO F. DIGIORGIO, III
Controller

March 26, 2010

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

Internal Audit has audited the accounts of the *Chester County Prison Inmate Fund (Inmate Fund)* as of December 31, 2009, and has compiled the attached Statement of Assets and Liabilities and the related Statement of Cash Receipts, Disbursements, and Cash Balance for the year then ended. It is Internal Audit's responsibility to annually audit the accounts and records of the *Inmate Fund* and to report the results of such audits to the Chester County Prison Board. 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 which 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 *Inmate Fund* in conformity with generally accepted accounting principles.

In our opinion, the accounts of the *Inmate Fund* 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 *Inmate Fund* as of December 31, 2009, and the cash receipts, disbursements, and cash balances for the year then ended.

In accordance with Government Auditing Standards, Internal Audit has also issued a report dated March 26, 2010, on our evaluation of the internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, policies and/or procedures for the *Inmate Fund*. That report is an integral part of an audit performed in accordance with Government Auditing Standards and is to be read in conjunction with this report in considering the results of our audit.

Valentino F. DiGiorgio, III
Controller

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

ASSETS

Cash	\$ 121,349
Petty Cash – Inmate Fund	506
Petty Cash / Change Fund	400
Due From County - Accrued Payroll	3,172
Due From Canteen	<u>22</u>
Total Assets	<u>\$ 125,449</u>

LIABILITIES

Due to Inmates	\$ 125,049
Due to County – Petty Cash / Change Fund	<u>400</u>
Total Liabilities	<u>\$ 125,449</u>

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

COUNTY OF CHESTER

CHESTER COUNTY PRISON INMATE FUND

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CASH BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2009

Cash Balance, January 1, 2009		\$	106,158
Receipts:			
Mail	\$	430,980	
Visits		399,010	
Inmate Processing		178,040	
Collected Inmate Payroll		147,435	
Pre-Work Release Wages		36,915	
Reimbursements From Canteen Fund		7,073	
Reimbursements For Cash Payments		8,499	
Interest Earned		1,030	
Miscellaneous Chores		<u>671</u>	
Total Receipts	\$	<u>1,209,653</u>	
Disbursements:			
Canteen Sales	\$	822,986	
Disbursements on Behalf of Inmates		163,485	
Discharged Inmates		112,812	
Inmate Financial Responsibility Payments		77,769	
Unclaimed Property		6,793	
Replenishment of petty cash fund		8,499	
Transfers to Canteen Fund		1,485	
Bank Fees		67	
Miscellaneous Expenses		<u>566</u>	
Total Disbursements	\$	<u>1,194,462</u>	
Excess of receipts over disbursements			<u>15,191</u>
Cash Balance, December 31, 2009		\$	<u>121,349</u>

The accompanying notes are an integral part of these financial statements

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

Note 1 - Summary of Significant Accounting Policies

Background and Reporting Entity

The audited financial statements of the *Inmate Fund* include those transactions dealing with funds that belong to the inmates. Each inmate has an account set up for him/her when money is received in his/her name. Receipts stem from money removed from the inmates' possession at the time of commitment (inmate processing), from family and friends during visits and through the mail, and from the County of Chester, Chester County Prison Canteen Fund, and the Correctional Center in the form of payroll for jobs and miscellaneous chores performed by the inmates. Disbursements include payments to the Chester County Prison Canteen Fund for inmate purchases from the prison's in-house store (the canteen), payment of account balances to discharged inmates, and payments on behalf of inmates to individuals designated by the inmates. Disbursements on behalf of inmates include checks to family and/or friends, postage, telephone, notary fees, restitution payments, and medical co-pays. Consequently, the cash balance is always representative of the liabilities ultimately due to the inmates upon their discharge.

At December 31, 2009, there were 873 inmates committed to the Chester County Prison.

The actual operating expenses of the Chester County Prison are paid for by the County of Chester. These costs include salaries and wages of prison employees, related fringe benefits, postage, telephone, office supplies, computer/LAN use, and furniture and equipment. These costs are not included in the audited Statement of Cash Receipts, Disbursements, and Cash Balance.

Basis of Accounting

The books and records of the *Inmate Fund* are maintained on the cash basis of accounting. Consequently, receipts are recognized when received 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.

COUNTY OF CHESTER

CHESTER COUNTY PRISON INMATE FUND

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

Note 1 - Summary of Significant Accounting Policies (continued)

Inmate Financial Responsibility Program

The Inmate Financial Responsibility Program (IFR) was adopted by the Chester County Commissioners and made effective in January of 1997. It consists of a \$5.00 per day surcharge that is chargeable to the inmates' personal accounts as compensation for room and board. These surcharges are paid over to the County of Chester. The IFR program also includes provisions to hold the inmates personally responsible for any damages they have done to prison property or incidental costs incurred by the prison for the inmates. These receipts are retained by the prison. IFR fees are assessed at the time of discharge (the full sentence has been served) and are only assessed on the inmates who have been sentenced and committed for a period of 2 years or less. IFR fees are not assessed on those being held at the prison for trial. In the Statement of Cash Receipts, Disbursements, and Cash Balance for the year ended December 31, 2009, IFR fees received represent those actual payments made to the Chester County Prison, while IFR fees disbursed represent any funds received, in addition to non-cash transactions of transfers from the inmates' accounts.

As of December 31, 2009, \$4,416,369 in IFR debt is owed to the Chester County Prison and subsequently to the County of Chester. It should be noted that Prison management does have policies and procedures in place to collect the room and board fees from discharged inmates. They currently have a dedicated full-time employee who is responsible of collecting the fees. However, Internal Audit does not believe that the current policies and procedures are adequate. We recommend that Prison management amend the current policies and procedures and explore other methods and practices in order to increase collection of room and board fees from prisoners. The Controller has recommended that prisoners who do not meet their financial obligations to the taxpayers of Chester County be denied access to the commissary for all purchases except essential hygiene products. If management cannot find a practical and effective way to increase collections of such fees from prisoners, management should explore whether:

1. the IFR should be discontinued and
2. the county resources used in connection therewith can be redeployed in a manner that increases the overall efficiency of the Prison.

Note 2 - Legal Matters

Our audit disclosed no pending litigation involving the *Inmate Fund* of the Chester County Prison for the year ended December 31, 2009. There are ongoing litigations 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 Inmate Fund.



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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 system of internal controls and the quality of performance in carrying out assigned responsibilities for the *Inmate Fund*. 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 which 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 methods 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 a 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.

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

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

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 Chester County Prison or to the County of Chester.

Other findings of a lesser significance in the area of compliance, specifically:

- Compliance with policies and procedures with respect to stale dated checks and voided transactions

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

This report is intended for the information of 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 INMATE FUND
SUMMARY OF EXIT CONFERENCE
FOR THE YEAR ENDED DECEMBER 31, 2009

Management of the Chester County Prison waived the option for an exit conference and has chosen to accept the report as presented.