

**ARKANSAS LEGISLATIVE AUDIT  
REPORT ON:  
DEPARTMENT OF CORRECTIONS  
FOR THE YEAR ENDED JUNE 30, 2022**

**Finding 1:**

In accordance with Ark. Code Ann. § 25-1-124, the Agency reported to Arkansas Legislative Audit a loss of funds totaling \$2,980. According to Agency management, a batch deposit from the Division of Community Correction for inmate banking activity was delivered to the bank on November 29, 2022. The deposit was not recorded by the bank, and according to correspondence, the bank has no record of receiving this deposit. Procedures in place at the time allowed Division employees to obtain the previous day's processed deposit slips from the bank the next business day.

**Recommendation:**

We recommend Agency management establish procedures to verify that all deposits are properly accounted for and confirmed as being received by the bank or other financial institution.

**Agency Response:**

Due to the discovery of the error, we switched to remote electric deposit for both Division of Community Correction bank accounts. Money orders are now scanned and uploaded to the bank, with same day credit to our accounts.

**Finding 2:**

Act 203 of the Fiscal Session of 2022 (codified at Ark. Code Ann. § 12-28-108) requires the Department of Corrections to conduct an annual audit of the number and types of firearms and ammunition owned by and in the possession of the correctional facilities, with the audit submitted to the Secretary for review. After reviewing the audit submitted to the Secretary, we noted inconsistencies among the divisions in the systems they used to track and maintain records of firearms and ammunition, as well as a lack of documentation of the procedures performed in completing the audit. Because of these inconsistencies and lack of documentation of the procedures performed, we could not determine if the Agency complied with the requirements of the law. These issues seemed to be caused by limited communication and coordination by management to all divisions regarding the expectations of the audit.

**Recommendation:**

To the extent practical, we recommend management establish Agency-wide policies and procedures documenting how compliance with the law will be achieved.

**Agency Response:**

Arkansas Division of Community Correction (ACC) utilizes QuickBooks to maintain inventory. Due to operational roadblocks with the Division of Correction, such as multiple shifts changes each day, we have had difficulty working out effective methods of utilizing QuickBooks and its functionalities. The Department of Corrections will continue its review of policies and commit to further streamline procedures that are accurate and effective for the Department.

**Finding 3:**

The Agency's Division of Community Correction inmate banking unit again has improper segregation of duties over cash receipting due to limited staffing or poorly designed internal controls. P4-19-4-501 of the State Financial Management Guide provides agencies a framework to assist in designing an adequate internal control structure around cash receipts, including proper segregation of duties so that no one person is collecting, recording, depositing, and reconciling cash receipts. We tested 40 daily deposits and noted four exceptions: three segregation of duties issues (i.e., the same individual received and recorded the day's activity), and one exception in which procedures could not be verified as the original supporting documentation could not be located. Due to a lack of compliance with the State's Financial Management Guide and failure to ensure that internal controls over cash receipts are operating effectively, improper accounting and other errors could occur. A similar finding was reported in the FY2020 audit (Finding 2020-3), and the Agency did not take corrective action to address the finding.

**Recommendation:**

We recommend Agency management review P4-19-4-501 of the State Financial Management Guide, establish procedures to comply with the policy, and ensure internal controls over cash receipts are operating effectively.

**Agency Response:**

The Finance Division provided additional training and guidance on the significance of segregation of duties. Additional staff will be made available in the absence of full-time ACC banking staff to ensure proper internal controls over cash receipts and deposits.

**Finding 4:**

The FY2021 audit included Finding 2021-2 regarding the Division of Correction's unit inmate councils not receiving and/or maintaining vendor invoices supporting purchases made during that fiscal year. Part of the Agency's response to finding 2021-2 included audits of the inmate councils by internal audit, upon request of the Director, Warden, or Deputy Warden and upon a change in the Warden position. Additionally, internal audit was to perform random audits of inmate councils statewide. The Agency did not implement corrective action. Specifically, we requested reports or other documentation of any audits completed from July 2022 through June 2023, which the Agency could not provide. When corrective action plans to address reportable issues are not followed, issues can continue and affect multiple periods.

**Recommendation:**

We recommend Agency management develop procedures to ensure that corrective action established to address reportable issues is implemented and operational.

**Agency Response:**

The initial plan was developed when Internal Audit worked for the Department; however, transformation moved Internal Audit under the Inspector General's Audit Section. The Department recognizes that based upon documentation presented to the Inspector General's Office, as part of implementing Executive Order 21-20, the previous work conducted by the auditors did not meet internal audit standards. The Inspector General's Office has been working with staff to create an audit program for auditing the Inmate Councils so that audits are consistent and properly documented to comply with audit standards.

**Finding 5:**

The Division of Correction overestimated proceeds due from crop sales by approximately \$530,000, resulting in the overstatement of assets and deferred inflows of resources related to revenues. Accurate financial reporting under the modified accrual basis of accounting and Ark. Code Ann. § 19-4-505 sometimes requires estimates of amounts when final information for completed transactions is unavailable. At year-end, the Agency was owed a final payment on rice sold from the 2021 calendar year crop cycle, and as the vendor had not determined this amount, the Agency estimated what was to be received using proceeds from prior transactions and current market information. The data used by the Agency in calculating the estimate was inaccurate and did not reflect actual events that occurred, which caused the misstatement.

**Recommendation:**

We recommend Agency management obtain the best available data when making estimates and incorporate a secondary review of all calculations.

**Agency Response:**

This finding is strictly due to poor communication between the Farm and Finance Divisions. Going forward, the Finance Division will receive and use calculations from the Farm Division. Additional information regarding crop contracts, pricing and production will be provided by the farm administrator and budget manager to ensure proper accrual of amounts due for farm products.

**Finding 6:**

Effective internal control over cash receipts should allow management to monitor areas that receive cash by maintaining logs or other records that document the location of receipt books as well as the expected prenumbered range of receipts issued and outstanding. The Agency has not established a uniform process for obtaining receipt books or issuing books to individual correctional units, centers, or programs of the Department. This physical receipt documentation is obtained independently by these areas without coordination through accounting shared services. As a result, we were unable to determine if our testing population of receipts was complete and accurate, and the Agency was unable to provide assurance that all receipts have been accounted for appropriately.

**Recommendation:**

We recommend Agency management establish a Department-wide policy for obtaining receipt books that incorporates logs or other records that document the number of books and range of receipts included in the books, to whom books are issued, and any other information considered relevant.

**Agency Response:**

We have purchased preprinted, sequentially numbered receipt books for distribution to all DOC departments that receive money. We have a master log of all receipt books with notation of who has the book and date received. Accounting Control personnel follow up to ensure receipts are reported consecutively and promptly.

**Finding 7:**

Adequate internal controls over the valuation of inventory should include procedures to verify that items purchased are recorded in the inventory management system at their correct cost. Because these controls were not in operation at the Division of Correction's central warehouse, our testing identified 23 exceptions at this location between the value added to the Agency's inventory management system and the purchase price. Any errors in additions to inventory have a direct effect on the inventory valuation recorded in AASIS.

**Recommendation:**

We recommend Agency management implement internal controls at the Division of Correction's central warehouse to include reconciliations of purchases in AASIS to additions in the Agency's inventory management system.

**Agency Response:**

Additional training, from the Finance Division, has been provided to warehouse staff to ensure pricing from the AASIS purchase order is used for entry into QuickBooks for inventory valuation. As a quality assurance measure, the Finance Division is providing on-going training to appropriate warehouse staff to ensure accurate entry into QuickBooks.