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May 13, 2015

Director Scott Frakes
Department of Correctional Services
Lincoln, NE 68509

Dear Director Frakes:

This letter is provided to communicate to the Department of Correctional Services (Department) certain findings due to their significance and the urgent need for corrective action. These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies. The work addressed herein was performed as part of the attestation examination of the Department for the period July 1, 2013, through December 31, 2014. This communication is based on our examination procedures through April 27, 2015. Because we have not completed our examination of the Department, additional matters may be identified and communicated in our final report. In addition, the comments noted in this letter may be modified in the final report.

Draft copies of this letter were furnished to the Department to provide management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next examination.

Comments and Recommendations

1. Central Pharmacy

Neb. Rev. Stat. § 83-4,154(3) (Reissue 2014) defines “health care services” at the Department as follows:

*Health care services means all medical care provided by or on behalf of the department to inmates and includes the practice of medicine and surgery, **the practice of pharmacy**, nursing care, dental care, optometric care, audiological care, physical therapy, mental health care, and substance abuse counseling and treatment[.]*

(Emphasis Added.) Neb. Rev. Stat. § 83-4,155 (Reissue 2014) states, “In administering health care services, the department shall provide a community standard of health care to all inmates.”

Neb. Rev. Stat. § 83-4,157(2) (Reissue 2014) authorizes the Department's Medical Director to do the following:

*Participate in the selection and supervision of all clinical staff employed by or under contract with the department, including medical doctors, physician assistants, **pharmacists, pharmacy technicians**, registered nurses, licensed practical nurses, advanced practice registered nurses practicing under and in accordance with their respective certification acts, mental health practitioners, alcohol and drug counselors, laboratory technicians, physical therapists, optometrists, audiologists, dentists, dental assistants, and dental hygienists[.]*

(Emphasis Added.) Neb. Rev. Stat. § 83-4,162 (Reissue 2014) addresses the administration of “drugs, devices, or biologicals” by the medical director:

The medical director shall develop and implement medical treatment protocols regarding the use of drugs, devices, or biologicals for the treatment of inmates and shall ensure that those protocols are consistent with a community standard of health care. In developing these protocols, the medical director shall ensure that the medical treatment protocols include:

- (1) Provisions requiring that only the relevant health care staff is involved in determining the number and dosages of the drugs, devices, or biologicals to be received by inmates under their care;*
- (2) Provisions establishing a system for monitoring the administration of drugs, devices, or biologicals to ensure that all prescribed drugs, devices, or biologicals are made available to the inmates; and*
- (3) Provisions establishing a system for monitoring and removing expired drugs, devices, or biologicals within the department's medication inventory which conforms with the requirements of section 71-2413.*

In keeping with the above statutory provisions, the Department maintains a centralized pharmacy (Central Pharmacy) responsible for filling inmate prescriptions at the State's correctional facilities. Any medicine or vitamin taken by an inmate must be prescribed and processed through the Central Pharmacy, which orders and receives into inventory such medications and dispenses them to the facilities. During the time period tested, the Department purchased over \$11 million in medications.

Additionally, facilities may submit to the Central Pharmacy requisitions for stock medications for their medical clinics, skilled nursing units, and housing units. Facilities may also submit requisitions for stock vitamins and over-the-counter medications for sale to inmates through the canteens; however, any such items stocked in canteens must be approved for use by the Medical Director.

The Central Pharmacy utilizes the Correctional Institutions Pharmacy Software program, which was purchased from Kalos, Inc. (Kalos), as the record-keeping system for its medications inventory and related activity. Additionally, the Central Pharmacy's manager is a contract employee whom, per the employment contract, the Department paid \$18,000 a month, or \$324,000, during the period tested.

Receipt of Inventory and Adjustments to Inventory

Administrative Regulation (AR) 115.08(III)(J)(2), “Physical Inventory” of “Pharmaceutical Services,” states, “A perpetual inventory will be maintained on the computer by addition of receipts and subtraction of dispensing prescriptions (scripts), **approved inventory adjustments**, and/or disposals.” (Emphasis Added.)

A good internal control plan requires a segregation of duties to ensure that all medication inventory transactions are recorded correctly into the Central Pharmacy's record-keeping system and supported adequately. This includes a management-level review of receipt transactions and manual adjustments to inventory records to verify that all medications received from vendors are properly recorded into the system.

One individual, the Pharmacy Inventory Control Technician, was responsible for all aspects of receiving and recording inventory into the system. This individual received all medications from suppliers, entered them in the inventory system, and noted the medications received on the invoice, so it could be paid. The Pharmacy Inventory Control Technician did print a report listing the items received before officially entering them into the system; however, no secondary review of this report was performed. Per staff at the Central Pharmacy, once the items are received in the system, a report cannot be generated.

The Pharmacy Inventory Control Technician was also responsible for entering manual adjustments to inventory records. There was no review by a second individual of these transactions to ensure they were appropriate and properly recorded. Additionally, supporting documentation for the manual adjustments was retained for only the most recent two months, as such; all documentation for the audit period had been disposed of by the same individual who entered the adjustments into the system. According to the Central Pharmacy, lengthier document retention was unnecessary because the discarded records were related to adjustments to Central Pharmacy inventory and not inmate scripts.

Without any secondary review of the inventory received, recorded in the system, and manually adjusted, there is an increased risk that inventory errors will not be identified in a timely manner. In addition, without a secondary review of the amounts received and invoiced, there is an increased risk that billing errors will not be identified.

We recommend the Department implement procedures to ensure the following:

- A proper segregation of duties exists over the receiving of medication inventory. This would include having another individual involved in the receiving and entering of items into the inventory system.
- Supporting documentation is maintained for all manual adjustments. These adjustments should also be reviewed and approved by a second individual.

Department Response:

- *The Department concurs with this recommendation and effective April 20 began using a temporary employee to enter items into the Kalos inventory system. We are developing a more permanent solution to assure that this segregation continues. This individual will also enter any adjustments.*
- *The Department concurs with this recommendation. Retention of records was addressed with the Executive Steering Council and specifically with Health Services administration.*

The Health Services Chief Operating Officer or Business Manager will complete a review of all adjustments and retain documentation regarding such adjustments as well as the Pharmacy Manager.

Lack of Controls Over the Distribution of Inventory

A good internal control plan requires an adequate segregation of duties and specific procedures for the distribution of medications from the Central Pharmacy inventory.

The Central Pharmacy processed and filled stock and canteen requisition requests for the correctional facilities as well as scripts for the inmates therein. Scripts were filled for self-medicating and non-self-medicating inmates alike. Self-medicating inmates have received approval to keep in their possession a 30-day supply of medications, also referred as “keep-on-person” (KOP) medications. Non-self-medicating inmates have scripts that require facility staff to distribute medications by the dose and observe them being taken.

Stock and Canteen Stock Requisitions

Stock medication requests from facilities were sent to the Central Pharmacy Inventory Control Technician, who filled the requisition, entered the transaction in the inventory system, printed a copy of the entry, and attached the requisition form thereto. The medication and copies of the requisition forms were sent to the facilities daily. Once delivered to the facility, the medication received was noted on the requisition form, which was signed by facility staff, and then returned to the Central Pharmacy. The Central Pharmacy Inventory Control Technician received the returned requisition forms, attached them to the original entry, and filed the documents.

The Central Pharmacy Inventory Control Technician performed all procedures related to fulfilling stock and canteen medication requisitions. No secondary review was performed to ensure the amount shipped agreed to either the original request or the entry in the inventory system. Likewise, no secondary review was carried out to verify that the received amount, as confirmed by the facility, agreed to what had been shipped and entered into the inventory system.

Self-Medicating Scripts

The Central Pharmacy sent delivery confirmation forms to the facilities for self-medicating inmates. The delivery confirmation forms were signed by the inmates to verify receipt of the KOP medication. The signed forms were then returned to the Central Pharmacy, which did not review them to ensure that any refused medication had been returned.

Not comparing medications refused at the facility to what has been returned to the Central Pharmacy increases the risk that medication may be lost or stolen.

Non-Self-Medicating Scripts

Two types of medication deliveries were made for non-self-medicating inmates. The following five correctional facilities received daily medication boxes contained inmate-specific prescriptions packaged by the Department’s “TCGRX” automatic tablet packaging (ATP) machine: Nebraska State Penitentiary (NSP); Lincoln Correctional Center (LCC); Community Correctional Center – Lincoln (CCC-L); Diagnostic and Evaluation Center (DEC); and Nebraska Correctional Center for Women (NCCW). The following five correctional facilities received

each inmate's monthly supply of medication, which was distributed as prescribed: Community Correctional Center – Omaha (CCC-O); Omaha Correctional Center (OCC); Work Ethic Camp (WEC); Nebraska Correctional Youth Facility (NCYF); and Tecumseh State Correctional Institution (TSCI).

Prior to an ATP machine run, a "Machine Report for TCGRX" was generated listing all of the medications to be packaged. After the ATP machine run, the Central Pharmacy reviewed the packaged medications to determine if any were empty or contained more than one pill. The packaged medications were then placed into facility medication boxes based on the inmate housing units and the time the medication was to be taken. At no point in the process did the Central Pharmacy compare the packaged medications to the "Machine Report for TCGRX" to ensure that all of the medications had been packaged correctly. Failure to do so increases the risk that packaging errors will occur and not be identified.

Additionally, the Central Pharmacy did not perform regular checks to verify the accuracy of the ATP machine. According to staff, such verification procedures were performed when the inventory system was updated. At that time, the Central Pharmacy was supposed to run a batch of medication and then compare it to the "Machine Report for TCGRX." The purpose of this procedure was to ensure that the updates do not impact the ATP machine's ability to package the medications correctly. However, the Central Pharmacy maintained no documentation to support the performance of those verification procedures.

We also noted the Central Pharmacy did not send the five facilities that received daily medications a list of medications with the medication boxes. Consequently, those facilities were unable to determine whether they had received all of the appropriate medications. Without procedures to verify that all medications are sent to and received by the facilities, there is an increased risk inmates may not receive all prescribed medicines.

The five facilities that maintain an inmate's monthly supply of medications received delivery confirmation forms from the Central Pharmacy. Signed and returned to the Central Pharmacy, those forms were supposed to confirm each facility's receipt of medications; however, the Central Pharmacy did not review the returned delivery confirmation forms to ensure that all medications were received. Without procedures to verify that medications are sent to and received by the facilities, there is an increased risk inmates may not receive all prescribed medicines.

We recommend the Department implement the following procedures:

- Perform periodic checks of the ATP machine to ensure that it is operating properly.
- Compare the medications packaged to the "Machine Report for TCGRX" to ensure that all medications are sent to the facilities.
- Include with each medication box shipped a list of the contents therein, so the facilities can verify receipt of all medications.

- Perform a prompt review of the returned delivery confirmation forms to ensure that all medications sent to the facilities are received and all refused medications are returned to the Central Pharmacy.
- Implement a second individual review of inventory system entries for stock medication to ensure they were entered correctly.

Department Response:

- *We are reviewing the time it takes to complete this process will develop an appropriate schedule to see that the ATP machine is operating properly.*
- *A pharmacist is checking the loading of the TCGRX Machine to make certain the right medications are in the correct canisters.*

APA Response: We continue to emphasize the Department should perform a comparison of the medications packaged to the medications sent to ensure all medications are distributed to the facilities.

- *The current Kalos inventory system does not allow for such a document to be generated. We are exploring options to replace the Kalos system with an electronic medication administration record system or an electronic medical records system that would have needed capabilities not presently available.*
- *We are exploring options to replace the Kalos system with an electronic medication administration record system or an electronic medical records system that would have needed capabilities not presently available.*
- *The Health Services Business Manager or Administrative Assistant will complete a spot check review of 10% of the medications received per day, if significant errors are noted the sampling will be expanded. Documentation of this review along with any issues would be submitted to the Chief Operating Officer to address with the DCS Chief Pharmacist.*

Central Pharmacy's Lack of Controls for Unused/Refused Medications

A good internal control plan requires procedures to be in place to account for all medications, including those medications that are refused or go unused by inmates.

Medication was prescribed to inmates and then filled by the Central Pharmacy. Inmates had the option of whether or not to take the prescribed medication. If an inmate refused, the medication was to be returned to the Central Pharmacy. The Central Pharmacy also received unused inmate medication, which may result from an inmate being discharged or a subsequent change in his or her prescription.

Facilities tracked medication distributions on Medication Distribution Logs (MDLs) and Medication Administrative Records (MARs). The MDLs were generally used by the facilities that received daily medications from the Central Pharmacy, and the MARs were generally used by the facilities that received medications monthly. The MDLs contained a spreadsheet that identified the inmate name and time of distribution and also had a column for each day of the week. When distributing medication, a Department employee noted on an MDL the number of medications both taken and available as well as the reason why a medication was not taken. The MDLs did not identify which medications were or were not taken. The inmate to whom the medication was distributed initialed the form. The MAR was a spreadsheet that identified the inmate's medication and had rows for the time of day the medication was to be taken and columns for the days of the month. Any medication not taken was to be identified as such on the MAR. Only the MDLs were returned to the Central Pharmacy. The MARs remained in the inmate's medical file at the facility and were not provided to the Central Pharmacy.

When returned to the Central Pharmacy, medications were placed in a specially designated area. Medications that could be redistributed were placed in separate bins to be restocked. Other returned medications, which could not be restocked, were stored in open containers until subsequently destroyed. While a Pharmacist locked up all returned Schedule II controlled substances, returned Schedule III through Schedule V controlled substance were placed in an unlocked area with the non-controlled substance medications. The Drug Enforcement Administration defined Schedule II drugs as those having a high potential for abuse and Schedule III through Schedule V as having less potential for abuse as the preceding Schedule.

At no point did the Central Pharmacy compare the medications returned to the MDLs to ensure that the correct amount of medications was returned. Rather, the Central Pharmacy merely collected and forwarded the MDLs to the Department's Health Services division. Similarly, for those facilities that utilized MARs, the Central Pharmacy obtained no documentation to verify that the correct medication amounts were actually returned.

Not comparing the MDLs and the MARs to actual returned medication counts increases the risk that some refused or unused medications will not be returned to the Central Pharmacy. This fact is aptly illustrated by an incident that occurred during the audit fieldwork. Central Pharmacy staff notified us that one correctional facility was not properly returning all unused medications. Instead, the medical personnel at that facility were relabeling unused or refused inmate medications for future use by other inmates. This improper activity was revealed when the facility mistakenly returned some relabeled medications to the Central Pharmacy.

Upon being returned to the Central Pharmacy, unused medications were restocked or disposed of by a Pharmacy Technician. When medications were approved for restocking, a Pharmacy Technician opened the packages and placed the contents into separate vials for the Pharmacist to count and enter into the inventory system. The Pharmacy Inventory Control Technician was then given the vials to restock.

That decision to restock or dispose of returned medications was based on a breakeven point of \$0.20 per medication – which, according to the Central Pharmacy Manager, is exemplified by the following time motion study performed on December 12, 2014:

Handwritten calculations and notes:

12/12

103
254
272
173
75
118
165
473
479

1633
479
2112

4.5⁰

Teck 470/hr

14.50 Rph
18 tech
27

975
479
1474
+300
470
2244

4.5⁰

Rph - 500/hr

break even

20¢

The documentation above does not provide sufficient detail to support the reasonableness of the \$0.20 breakeven point. The time study appears to only have utilized one day of activity and it does not adequately identify what inputs were used to calculate the breakeven amount.

Because the above breakeven calculation was performed on December 12, 2014, we asked what the breakeven point would have been during the majority of our examination period. The Central Pharmacy was unable to document a prior time motion study. Failure to maintain such documentation increases the risk that medications may be improperly discarded, resulting in a loss for the Department.

Once a month, a vendor destroyed returned medications valued at below the \$0.20 breakeven point. No log of the types and quantities of medications to be destroyed was maintained by the Central Pharmacy. Instead, when returned medications were to be destroyed, the Central Pharmacy counted the number of controlled substances, placed them in a bag, and wrote the count on the bag. The vendor, responsible for the disposal, then performed a count to verify the number on the bag. Non-controlled medications were handled in the same manner.

Without a process to track when medications are returned to the Central Pharmacy, there is an increased risk that some medications will not be accounted for.

We recommend the Department implement procedures to ensure all unused medications are properly returned from the facilities and tracked through destruction.

Department Response: We are exploring options to replace the Kalos system with an electronic medication administration record system or an electronic medical records system that would have needed capabilities not presently available. Plans have been developed to build a secure area at the Central Pharmacy to store returned medications.

Inventory System

In planning our testing of the Central Pharmacy, we requested a report that would show the Central Pharmacy activity during our examination period. The Central Pharmacy, with the assistance of Kalos, the Department's pharmacy inventory system vendor, was able to provide a detailed pharmacy inventory activity report. The following table contains a breakdown of the report by transaction type:

Transaction Type	Lines of Coding	Percentage of Total
Script	2,269,025	67.69%
Drug Adjust	803,522	23.97%
Drug Shipment	257,219	7.67%
Manual Entry	161	0.00%
Script Return/Delete	21,025	0.63%
Drug Transaction	1,326	0.04%
Total	3,352,278	100.00%

Due to the lack of controls already identified herein, we inquired with the Central Pharmacy regarding the more than 800,000 "Drug Adjust" transactions, which appear to have been manual drug adjustments. The Central Pharmacy could not account for these transactions. Only after two conference calls with Kalos were we able to establish that the transactions in question were "bad records" caused by "bugs" in the application that wrote "Drug Adjust" transactions whenever inventory went to zero or negative.

We also inquired whether the Central Pharmacy had received a Statement on Standards for Attestation Engagements No. 16 (SSAE16) service auditor's report from Kalos or if a current one could be obtained. A SSAE16 report is an attestation standard put forth by the Auditing Standards Board of the American Institute of Certified Public Accountants that addresses engagements undertaken by a service auditor for reporting on controls at organizations that provide services to user entities, for which a service organization's controls are likely to be relevant to a user entities' internal control over financial reporting. A SSAE16 report offers an independent assessment of the controls at the service-providing organization and also addresses controls the Department should have to complement them. The Central Pharmacy had not received such a report; moreover, per Kalos, no such control assessment audit has been performed.

The Central Pharmacy had previously noted its many concerns with both the inventory system and the vendor, Kalos. However, aside from complications arising from a system upgrade, these

concerns were not communicated to the Department's Purchasing area, which monitors the Kalos contract. The Department paid Kalos, \$61,266 during the examination period.

We recommend the Department implement procedures to ensure the following:

- A full understanding of the inventory system is acquired, and reliable inventory reports are developed.
- Periodic SSAE16 reports are obtained to verify the sufficiency of the controls utilized by both the vendor and the Department for ensuring the accuracy of the inventory system.
- Contract for the inventory system is adequately monitored and evaluated based upon the quality of service provided.

Department Response:

- *The Department has been in contact with Kalos and they have indicated that the software has been updated to resolve issues with the adjustments. We are working on a date in the near future to have the NDCS version updated. Reports will be generated after the update to see if it fixed the historical issue identified during the audit. Additionally, Health Services has been without a Business Manager for a few months. The incoming Business Manager will be tasked with learning the Kalos system and providing training to other staff as deemed appropriate.*
- *As the Department looks for an electronic medication administration record system or electronic medical records system criteria will include the availability of an SSAE16 report.*
- *Appropriate staff within Health Services has been advised that issues not resolved by a Health Services provider in a timely manner or not providing required information or data will have written vendor complaints forwarded to DCS Purchasing to address the issues.*

Annual Physical Inventory

AR 115.08(III)(J)(1), "Physical Inventory" of "Pharmaceutical Services," states the following:

On or about June 30 of each year, a total physical inventory will be taken of all Pharmacy stock items by designated NDCS staff independent of the Pharmacy operation. This staff will include Central Accounting, Purchasing and Inventory personnel. Any exceptions found in the inventory will reported in writing to the NDCS Materiel Administrator. The Health Care Administrator shall receive a written report of inventory discrepancies.

The Department paid \$1,944 to Rocky Mountain Inventory, Inc., for an independent physical inventory count of the Central Pharmacy in June 2014. However, no adjustments to the Central Pharmacy's inventory records resulted from that independent count. Additionally, the inventory exceptions revealed by the count were not forwarded to the NDCS Materiel Administrator, as required by AR 115.08(III)(J)(1).

The Central Pharmacy Manager offered the following explanation for such lack of action:

Typically, accounting notifies Pharmacy after viewing the report of any discrepancies that are outside of our allotted variance and then request we do a re-count of that product and adjust the inventory to reflect the re-count. Accounting never provided us with any list of items to re-count so none were made. We actually never really received any report from accounting other than our total dollar variance was approx. 6% which was within the allowed variance formula used.

We inquired whether the Materiel Administrator or the Department's Accounting or Health Services divisions had received and reviewed the results of the independent physical inventory count. We observed an email to the Controller and Accounting Manager, dated July 12, 2014, reporting the count results; however, the Controller indicated they were not aware of receiving the email. It did not appear the Materiel Administrator had received the count report. The Health Services division did acknowledge having received a report of the count results; however, no review of count discrepancies or any inquiry as to the cause(s) thereof was documented.

Per the Department's Controller, the contractor was to count tenths of bottles and make exact counts of the most expensive line items, which comprise 80% of the cost of the Pharmacy inventory. According to the contractor, the total value of all items counted was \$470,159; however, the inventory records in the system maintained by the Central Pharmacy valued the total inventory at \$438,713 – for a variance of \$31,446 or 7.2%.

In addition, per the inventory system report used for the annual inventory, there were 1,443 medications and other supply items, such as needles and syringes. Per the spreadsheet from the contractor, 1,392 items were counted. We performed a comparison of the National Drug Code (NDC) numbers, per the inventory system report, and the contractor's actual count report and noted the following: 1,324 items were the same on both reports; 68 items were on the contractor's report but did not have a match in the inventory system; and 119 were on the inventory system report but not counted on the contractor's report. Based on the comparison, there were 1,511 total items between the inventory system and what was counted, including the following:

- 597 items (39.5%) had variances where the actual amount counted was less than the quantities on hand per the inventory system, ranging from 1 to 9,100 short.
- 517 items (34.2%) had variances where the actual amount counted was more than the quantities on hand per the inventory system, ranging from 1 to 170,250 over.
- 397 items (26.3%) had counts that agreed to the amounts per the system.

We also performed a comparison of the contractor count to what the system showed as inventory on-hand for the medications. This was done by matching the NDC number and drug name between both the contractor's counts and the system. The following table is a summary of those items with a unit cost over \$100 that had variances:

Drug Name	Unit Cost	Count per System	Quantity Counted	Count Variance	% Variance	\$ Variance
Animas Infusion Inset Infu	\$ 103.62	2	23	21	1050%	\$ 2,176.02
Invega Sustenna 117 mg Inj	874.52	3	0*	(3)	(100%)	(2,623.56)
Invega Sustenna 78 mg Inj	583.02	1	4	3	300%	1,749.06
Neulasta 6mg/0.6ml Soln	6,947.15	1.2	1	(0.2)	(17%)	(1,389.43)
Neupogen Inj (10x1.6ml) 480 Mcg Soln	285.07	25.6	25	(0.6)	(2%)	(171.04)
Pneumovax 23 Inj 25/0.5 Inj	129.70	10	2	(8)	(80%)	(1,037.60)
Prevnar 13 Inj	265.94	1.5	3	1.5	100%	398.91
Risperdal Consta 25 mg Kit	291.50	1	2	1	100%	291.50
Samsca 15 mg Tab	282.51	8	20	12	150%	3,390.12
Sumatriptan Succ 6 mg/0.5 ml Kit	100.76	2	4	2	100%	201.52
Synvisc -One Syr	974.65	2	12	10	500%	9,746.50
Zostavax Soln	261.57	(0.65)	0*	0.65	100%	170.02
MMR	106.10	0**	40	40	100%	4,244.00
Synvisc Hylan G-F 8 mg/ml	162.46	0**	6	6	100%	974.76

*These two items were listed in the system as having inventory, but no corresponding items were noted on the inventory count report from the contractor.

**These two items were listed on the inventory count report from the contractor, but there were no corresponding items in the system.

Without adequate procedures for the maintenance of medication supplies, as well as a sufficient understanding of the inventory system and the various related drug transactions, there is an increased risk for the loss or misuse of medication due to theft or error.

We recommend the Department implement procedures to ensure adjustments are performed based on the annual physical inventory count to ensure the inventory system agrees to the quantities on hand.

Department Response: The Department concurs that adjustments should be updated to ensure the inventory system agrees to the quantities on hand. Updates will be processed by staff assigned to update the inventory and verified by the Health Services Business Manager or Administrative Assistant.

2. Lack of Controls over Canteen Adjustments

Each of the Department's correctional facilities, except for the Community Corrections Center – Omaha and the Diagnostic and Evaluation Center, contained a canteen from which inmates could purchase various items for their personal needs, including food, clothing, personal hygiene products, and soft drink tokens. The canteens were operated by a combination of inmates and Department staff. The Department tracked the canteen sales and inventory on its Corrections Information Tracking System (CIT). The system tracked the receipt of inventory, sales of inventory, and adjustments to inventory.

While no State statute appears to directly authorize the Department to maintain prison canteens, Neb. Rev. Stat. § 83-915.01 (Reissue 2014) states the following:

*The Inmate Welfare and Club Accounts Fund is created. The fund shall consist of revenue from soft drinks sold to inmates in the custody of the Department of Correctional Services, **profit from departmental canteens**, interest earned by the fund, interest on inmate trust funds pursuant to section 83-915, or other revenue at the department's discretion. The fund shall be used to provide recreational activities and equipment for inmates at all of the department's correctional facilities. The fund shall be administered by the Director of Correctional Services or his or her designee. Any money in the fund available for investment shall be invested by the state investment officer pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act. (Emphasis Added.)*

A good internal control plan requires procedures to ensure adjustments to canteen inventory are explained, and documentation to support such adjustments is maintained.

AR 113.20, “Canteen Operations,” Attachment E, identifies various reporting requirements once a canteen inventory is complete, including the following:

- Canteen adjustment data is to be provided to the Facility Business Manager within five working days after the count. This must be signed and dated by the Canteen Supervisor.
- The Business Manager must review and approve the adjustments, sign and date the documents, and submit the documentation and justifications to Purchasing/Accounting within five days.

AR 113.05(III), “Fiscal Management, Purchasing and Inventory Control: Supplies,” requires any adjustments made to supply/inventory records that exceed \$1,000 to be reviewed and approved by the Department’s Materiel Administrator. Per the Department, the \$1,000 adjustment refers to the net effect, not the total, of the adjustment. Thus, if an adjustment were made to increase inventory by \$1,500 and to decrease inventory by \$2,000, this adjustment would not have to be reported to the Department’s Materiel Administrator because the net effect would be only \$500.

During the period July 1, 2013, through December 31, 2014, the canteen adjustments increased inventory by \$77,616 and decreased inventory by \$87,393. Below is a table summarizing the canteen adjustments during the examination period.

Facility	Total Adjustments		Total Canteen Sales
	Increases in Value	Decreases in Value	
NSP - Store 1 (NSPS1)	\$ 11,537	\$ (14,482)	\$ 1,082,841
NSP - Store 2 (NSPS2)	16,414	(25,759)	1,126,010
LCC	17,336	(12,742)	1,219,123
TSCI	11,938	(10,209)	1,570,367
OCC	8,342	(9,939)	1,308,280
NCCW	311	(423)	562,211
CCC-L	8,485	(11,194)	437,848
NCYF	1,621	(1,414)	101,650
WEC	1,631	(1,231)	229,226
Total	\$ 77,616	\$ (87,393)	\$ 7,637,555

AR 113.20 required at least three canteen inventory counts per year, although the canteens could perform additional counts. The canteen inventory counts compared the physical inventory to the quantities maintained in the system. Based on the counts, the inventory recorded in the system was adjusted to reflect the actual inventory at the canteen.

AR 113.20, Attachment E, provided specific reporting requirements when adjustments were made; however, according to our testing, it did not appear that the appropriate reviews and approvals took place.

We selected 18 canteen adjustments from 7 facility canteens. Those adjustments included the increase or decrease of many different canteen items. For the 18 adjustments, we requested documentation to support that the reviews required by AR 113.20 and AR 113.05 were performed. During this testing, we noted the following:

Facility	Total Adjustments		Adjustment Signed Off by Canteen Supervisor	Adjustment Provided to Facility Business Manager Within 5 Working Days	Adjustment Signed Off by Business Manager	Adjustment Information Sent to Accounting or Purchasing	Adjustment Approved by NDCS Materiel Administrator
	Increases in Value	Decreases in Value					
NSPS1 - Adjustment 1	\$ 166	\$ (50)	No	No	No	No	N/A (Note 1)
NSPS1 - Adjustment 2	442	(117)	No	No	No	No	N/A (Note 1)
NSPS1 - Adjustment 3	1,470	(2,837)	No	No	No	No	No
NSPS2 - Adjustment 1	178	(71)	No	No	No	No	N/A (Note 1)
NSPS2 - Adjustment 2	3,533	(7,648)	No	No	No	No	No
LCC - Adjustment 1	714	(567)	No	No	No	No	N/A (Note 1)
TSCI - Adjustment 1	1,507	(1,507)	Yes	No (Note 2)	Yes	No	N/A (Note 1)
TSCI - Adjustment 2	279	(18)	Yes	No (Note 2)	Yes	No	N/A (Note 1)
TSCI - Adjustment 3	1,685	(2,247)	Yes	No (Note 2)	Yes	No	N/A (Note 1)
OCC - Adjustment 1	342	(491)	Yes	Yes	No	No	N/A (Note 1)
OCC - Adjustment 2	188	(0)	Yes	Yes	No	No	N/A (Note 1)
OCC - Adjustment 3	239	(366)	Yes	Yes	No	No	N/A (Note 1)
CCC-L - Adjustment 1	155	(0)	Yes	No	No	No	N/A (Note 1)
CCC-L - Adjustment 2	0	(155)	Yes	No	No	No	N/A (Note 1)
CCC-L - Adjustment 3	9	(120)	Yes	No	No	No	N/A (Note 1)
CCC-L - Adjustment 4	15	(171)	Yes	No	No	No	N/A (Note 1)
CCC-L - Adjustment 5	94	(237)	Yes	No	No	No	N/A (Note 1)
NCYF - Adjustment 1	353	(0)	Yes	No	No	No	N/A (Note 1)

Note 1: This was required only when the net adjustment was \$1,000 or greater.

Note 2: These adjustments were provided to the Facility Business Manager in six days. The others lacked support that they were ever provided to the Facility Business Manager.

A similar finding was noted in our prior attestation.

We noted 12 other adjustments – in addition to the two tested that had a net adjustment – that exceeded \$1,000. The Department lacked support that these 12 additional adjustments were reviewed and approved by the Department’s Materiel Administrator. A summary of the 12 additional adjustments is presented in the table below.

Canteen	Date	Increase in Inventory	Decrease in Inventory	Net Adjustment
NSPS1	2/1/2014	\$ 3,430	\$ (5,728)	\$ (2,298)
NSPS2	7/9/2013	-	(1,118)	(1,118)
NSPS2	7/9/2013	1,143	-	1,143
NSPS2	1/31/2014	1,347	-	1,347
NSPS2	2/1/2014	1,815	(12,014)	(10,199)
NSPS2	9/30/2014	1,192	-	1,192
LCC	10/31/2013	1,541	(3,913)	(2,372)
LCC	1/27/2014	-	(4,376)	(4,376)
LCC	1/27/2014	4,476	-	4,476
LCC	3/31/2014	1,370	(2,570)	(1,200)
LCC	10/1/2014	6,646	-	6,646
TSCI	1/31/2014	2,022	(657)	1,365

In addition, AR 113.05 did not explicitly state that only inventory adjustments exceeding a net adjustment value of \$1,000 were subject to approval by the Materiel Administrator. As a result of the Department’s process, significant adjustments with a net adjustment value of \$1,000 or less were not brought to the Materiel Administrator’s attention. Below is a table identifying 16 such significant but non-reported inventory adjustments.

Canteen	Date	(A) Increase in Inventory	(B) Decrease in Inventory	(A) + (B) Net Adjustment	(A) - (B) Adjustment Absolute Value
NSPS1	2/22/2014	\$ 3,920	\$ (3,680)	\$ 240	\$ 7,600
NSPS2	2/22/2014	3,920	(3,680)	240	7,600
LCC	6/30/2014	714	(567)	147	1,281
LCC	10/31/2014	751	(670)	81	1,421
TSCI	9/30/2013	890	(1,007)	(117)	1,897
TSCI	1/27/2014	2,156	(2,033)	123	4,189
TSCI	6/30/2014	1,507	(1,507)	-	3,014
TSCI	6/30/2014	1,685	(2,247)	(562)	3,932
TSCI	10/31/2014	856	(847)	9	1,703
OCC	8/30/2013	385	(976)	(591)	1,361
OCC	9/30/2013	895	(317)	578	1,212
OCC	12/31/2013	530	(789)	(259)	1,319
OCC	1/28/2014	2,620	(2,508)	112	5,128

Canteen	Date	(A) Increase in Inventory	(B) Decrease in Inventory	(A) + (B) Net Adjustment	(A) - (B) Adjustment Absolute Value
CCC-L	10/3/2013	428	(1,335)	(907)	1,763
CCC-L	1/27/2014	2,705	(2,570)	135	5,275
NYCF	1/27/2014	974	(956)	18	1,930

AR 113.20, Attachment E, stated that acceptable canteen inventory variances can differ based on the unit price and quantity sold. What constitutes an acceptable variance was not specified, however. A good internal control plan would require a written policy documenting acceptable variances to ensure that the underlying administrative regulation was applied consistently.

We requested the acceptable inventory variances at the nine Department canteens, none of which had a written policy containing that information. Tecumseh State Correctional Institution and the Work Ethic Camp claimed to have an unwritten policy.

From the initial 18 adjustments identified on page 14, we selected 182 adjusted items to determine if there was support to explain why the adjustment was necessary. For 169 of the 182 adjusted items selected for testing, the canteens could not provide documentation to explain why the adjustment was made. A listing of the 169 adjusted items and the amounts adjusted can be found on [Exhibit 1](#).

Lack of support for adjustments, inaccurate inventory records, and an absence of written policies increase the risk of theft or loss of inventory. Additionally, when adjustments are not reviewed and approved by the proper personnel, there is an increased risk errors, irregularities, or abuse may remain undetected.

We recommend the Department take the following action:

- Implement procedures to ensure accurate inventory records are maintained.
- Implement a written policy on acceptable variances for canteen items.
- Retain documentation to support inventory counts and explanations for any discrepancies between the physical and system counts.
- Ensure all canteen inventory adjustments and support are reviewed and approved by the proper staff, per AR 113.20 and AR 113.05.

Department Response:

- *Administrative Regulation (AR) 113.20 Canteen Operations is in the process of being revised and will be discussed with Business Managers and Canteen Supervisors on May 12, 2015. This will include a discussion of correct receiving procedures and verification along with daily balancing of sensitive items to ensure inventory records are accurate. Additionally, damaged goods entries will be processed at least weekly.*

- *Department wide policy is being defined and added into an attachment to AR 113.20. This will be reviewed and discussed at the May 12 Business Managers' and Canteen Supervisors' meeting.*
- *This has been discussed with Business Managers at recent meetings but will be covered again at the May 12 Business Managers' and Canteen Supervisors' meeting.*
- *AR 113.20 is being revised to specify who must review all Physical Inventory Adjustments, Damaged Goods Adjustments, and Spot Check Adjustments and at what dollar level.*

3. Lack of Controls Over Electronic Monitoring Expenditures

The Nebraska Board of Parole (Board), an independent agency, is responsible for the following: reviewing the status of committed offenders; determining when committed offenders are released on parole; fixing parole conditions; revoking parole and issuing warrants to arrest parole violators; and discharging offenders upon the expiration of their parole terms. The Board meets daily, reviewing inmate cases to determine readiness for release into society on parole. If an offender is granted parole, he or she is referred to the Office of Parole Administration (Office) within the Department to obtain approved residence and employment. A Parole Administrator, approved by the Board, manages the Office.

Neb. Rev. Stat. § 83-1,116 (Reissue 2014) contains the following:

The board [of parole] may also require, either at the time of the offender's release on parole or at any time while the offender remains on parole, that the offender conform to any of the following conditions of parole:

....

(d) Report, as directed to his or her district parole officer;

....

(h) Satisfy any other conditions specially related to the cause of his or her offense and not unduly restrictive of his or her liberty or conscience.

Neb. Rev. Stat. § 83-1,117 (Reissue 2014) provides the following:

The Board of Parole may in appropriate cases require a parolee, as a condition of his parole, either at the time of his release on parole or at any time while he remains under parole supervision, to reside in a community guidance center, boarding facility, halfway house, hospital, or other special residence facility, for such period and under such supervision or treatment as the board may deem appropriate.

Neb. Rev. Stat. § 83-174.03 (Reissue 2014) requires certain sex offenders, upon completing their terms of incarceration or release from civil commitment, to be supervised in the community by the Office for the remainder of their lives. Subsection (4)(g) of that statute includes among the conditions of community supervision available to the Office those “designed to minimize the risk of recidivism, including, but not limited to, the use of electronic monitoring, which are not unduly restrictive.”

In Op. Att’y Gen. No. 96047 (June 7, 1996), the Attorney General recognized not only the authority of the Board to require electronic monitoring as a condition of parole but also the

obligation of the paroled inmate to pay the costs of such monitoring. The Attorney General explained that conclusion as follows:

If the Board concludes that electronic monitoring is an appropriate condition of parole for any of these reasons, the burden of complying with the condition of parole would rest with the parolee. Just as a parolee would be expected to pay the cost of room, board, and transportation to and from a place of employment, a parolee whose parole is conditioned upon electronic monitoring could be required to pay for the cost of that service.

Reflecting the Attorney General's above determination, AR 410.15, "Electronic Monitoring – Adult Parole Administration," Procedure I, contains the following:

A parolee being monitored will be responsible for paying for daily costs of electronic monitoring and for any loss of or damage to the monitoring equipment while in his/her possession. Parolees will be billed monthly by the monitoring company and will be responsible for keeping the balance paid.

An exception to the requirement that the parolee pay for the cost of electronic monitoring may have been granted if the fee would prove a significant financial burden to him or her. Similarly, lifetime sex offenders' electronic monitoring was paid by the Department, though this was not specified in AR 410.15.

Parolees required to pay electronic monitoring costs were billed by the Department's vendor, Satellite Tracking of People (STOP). If a parolee failed to pay the electronic monitoring fee, the vendor invoiced the Department for outstanding balances exceeding six months. During the examination period, the Department paid STOP a total of \$450,661 for such unpaid fees.

A good internal control plan requires review procedures to be in place to ensure that amounts invoiced are correct and proper.

During testing of expenditures, we examined the October 2013 invoice from STOP. The amount invoiced for the month was \$20,528, which included \$5,490 for lifetime sex offenders and \$15,038 for parolees who had not paid their April 2013 electronic monitoring balances. The payment for the lifetime sex offenders was for October 2013. Our inquiry about the invoice revealed that the Department lacked procedures for ensuring the accuracy of the STOP amount billed. For instance, the Department had no controls in place for determining whether the parolees made any electronic monitoring payments for April 2013. In addition, we inquired as to whether the parole officers followed up with parolees who were not making electronic monitoring payments to remind them of their outstanding balances or document why they had not paid the fees. Per the Department, parole officers occasionally discussed the need for parolees to pay electronic monitoring costs; however, neither those discussions nor the reasons why the parolees failed to pay their balances were documented.

Selecting 10 parolees on the October 2013 invoice from STOP, we requested documentation to support the accuracy of the amount charged for those individuals. We inquired also whether the parole officers had documented why any of the 10 parolees under their supervision had not paid the electronic monitoring fee. The Department was unable to provide support for the amount billed for the 10 parolees. Furthermore, the Department had no documentation to support why any parolee had failed to pay his or her balance.

Below is a table for the period tested, identifying the following: the number of parolees on electronic monitoring (exclusive of lifetime sex offenders); the total amount billed to parolees for electronic monitoring; the amount paid by the parolees; the amount billed to the Department; and the percentage of electronic monitoring costs paid by the parolees. Because the Department maintained none of this information, we obtained the data directly from STOP.

Time Period	Parolees on Electronic Monitoring	Total Amount Billed to Parolees	Parolee Payments Received	(Note 2) Billed to State	Percentage of Payments Made by Parolees
July 2013	227	\$ 27,631	\$ 6,955	\$ 20,676	25.17%
August 2013	229	28,512	7,082	21,430	24.84%
September 2013	240	28,175	7,523	20,652	26.70%
October 2013	268	32,051	7,029	25,022	21.93%
November 2013	279	35,244	7,464	27,780	21.18%
December 2013	300	36,076	9,305	26,771	25.79%
January 2014	298	36,353	9,663	26,690	26.58%
February 2014	289	34,328	9,457	24,871	27.55%
March 2014	293	37,486	10,528	26,958	28.09%
April 2014	296	36,284	9,733	26,551	26.82%
May 2014	297	38,991	11,146	27,845	28.59%
June 2014	319	24,521	6,491	18,030	26.47%
July 2014	327	26,242	8,683	17,559	33.09%
August 2014	359	26,195	8,011	18,184	30.58%
September 2014	316	24,958	7,022	17,936	28.13%
October 2014	314	25,897	6,832	Note 1	26.38%
November 2014	314	25,060	7,242	Note 1	28.90%
December 2014	336	28,656	7,273	Note 1	25.38%

Note 1: None of these months had been billed to the Department by STOP at the time the data was obtained. This is caused by STOP billing the Department for unpaid parolee balances exceeding six months.

Note 2: The “Billed to State” amounts are the parolee unpaid balances exceeding six months, which are billed to the State; thus, the sum of this column will not agree to the \$450,661 previously identified as having been paid to STOP during the period tested. For instance, the State was billed \$20,676, identified as “Billed to State” for July 2013, but was not paid until February 2014.

The Department was also overbilled by \$45 on the October 2013 invoice. That overbilling was for three parolees who were charged for eight more days of electronic monitoring than were actually used, as well as for one Adult Parole Administration employee who tested the electronic monitoring for one day but was not removed from the invoice.

The Department lacked adequate controls for reviewing the STOP invoices for accuracy. Had STOP received full payment from the parolee and also billed for that same individual on a subsequent invoice, the Department would have been unaware of the improper billing. In addition, the Department did not document discussions with parolees about paying electronic monitoring costs or their reasons for failing to do so.

We recommend the Department implement procedures to ensure the amounts billed for electronic monitoring are correct and proper. We also recommend the Department require parole officers to document discussions with parolees about electronic monitoring fees and the reasons parolees are not able to pay their balances. We further recommend the Department consider establishing receivable accounts in order to recover the outstanding balances from parolees.

Department Response: The Department is now receiving copies of detailed invoices for all parolees under electronic monitoring and providing them to the parole officers for follow up with parolees. Methods for recording receivable amounts will be explored but we would need to assure that parolees were afforded due process to contest any amount due.

4. Unable to Locate Assets

Neb. Rev. Stat. § 81-1118.02 (Reissue 2014) states, in relevant part:

(1) Each executive, department, commission, or other state agency, including the Supreme Court, the Board of Regents of the University of Nebraska, and the Board of Trustees of the Nebraska State Colleges, shall annually make or cause to be made an inventory of all property, including furniture and equipment, belonging to the State of Nebraska and in the possession, custody, or control of any executive, department, commission, or other state agency. The inventory shall include property in the possession, custody, or control of each executive, department, commission, or other state agency as of June 30 and shall be completed and filed with the materiel administrator by August 31 of each year.

(2) If any of the property of the state, referred to in subsection (1) of this section, is lost, destroyed, or unaccounted for by the negligence or carelessness of the executive, department, commission, or other state agency, the administrator shall, with the advice of the Attorney General, take the proper steps to recover such state property or the reasonable value thereof from the executive, department, commission, or other state agency charged with the same and from the person bonding such executive, department, commission, or other state agency, if any.

The annual inventory letter that the Department sent to its facilities conducting the fiscal year ended June 30, 2013, physical inventory stated the following:

A “UL” status indicates that the asset could not be located during the previous annual inventory. Any assets that have been listed with this status in 20012 [sic] and 2013 should be highlighted and requested by memorandum to be removed from the listing.

Good business practices require that a clear and strictly observed policy be in place for how long a missing asset should be designated as “unable to locate” (UL) before being removed from the Department’s asset listing.

As of December 31, 2014, the Department’s fixed asset listing contained 86 assets, totaling \$193,886, with a UL status. Of this total, we noted the following:

- Eighty-three assets, totaling \$184,154, had a UL status as of June 30, 2012, and June 30, 2013.

- Twelve assets, totaling \$20,429, had a UL status as of June 30, 2008, the end of the period covered during our previous review of the Department.

See **Exhibit 2** for a complete listing of assets identified as UL.

The Department lacked a clear and strictly observed policy for when missing assets with a UL status should be removed from its fixed asset listing. Furthermore, the inability of the Department to locate several assets prevented full compliance with the annual inventory requirement in § 81-1118.02.

A similar finding was noted in our prior attestation.

Without adequate policies and procedures in place for when UL assets should be removed from the Department's fixed asset listing, there is an increased risk of theft or misuse of State property and noncompliance with State statute.

We recommend the Department implement adequate procedures to ensure its assets are safeguarded and readily locatable, including a clear and strictly observed policy for when missing assets with a UL status should be removed from its fixed asset listing.

Department Response: Administrative Regulation 113.04 has been revised to provide a more definitive policy. Additionally, research has been completed on the UL listing and updated information has been provided.

5. Timesheets

Neb. Rev. Stat. § 84-1001(1) (Reissue 2014) states the following, in relevant part:

All state officers and heads of departments and their deputies, assistants, and employees, except permanent part-time employees . . . not required to render full-time service, shall render not less than forty hours of labor each week in which a paid holiday may occur.

In addition, a good internal control plan requires that hours worked be adequately documented, via timesheets or time logs, etc., and that such documentation be kept on file to provide evidence of compliance with § 84-1001(1). Furthermore, a good internal control plan also requires the maintenance of adequate documentation to support that accrued employee sick and vacation leave was actually earned.

The Department's overtime-exempt employees were not required to maintain timesheets or other similar supporting documentation; rather, they were required only to record leave used. As a result of the Department's policy, there was no support that full-time employees rendered at least 40 hours of labor each week, as required by § 84-1001(1), or part-time employees rendered the hours required each week. During the period July 1, 2013, through December 31, 2014, the Department had 401 full-time and 5 part-time exempt employees.

A similar finding was noted in our prior attestation.

Without adequate records to support hours worked, there is an increased risk for fraudulent or inaccurate payment of regular hours and accumulation of leave.

We recommend the Department establish a policy requiring all employees to maintain adequate documentation, such as timesheets or certifications, to support hours worked.

Department Response: We believe that overtime exempt employees are not required by the Fair Labor Standards Act to document their specific hours; furthermore, this could lead to the implication that they are non-exempt employees. Exception reporting for leave is more appropriate for those employees not eligible for overtime.

APA Response: As noted, Neb. Rev. Stat. § 84-1001(1) requires all state officers and heads of departments and their deputies, assistants, and employees to work no less than forty hours each week. Therefore, documentation should be retained, such as a certification or a detailed timesheet to document compliance with State statute.

6. Personal Service Spending Authority Exceeded

The Legislature makes appropriations for each fiscal year. An appropriation is an authorization to make expenditures and incur obligations, and each agency is expected to operate within those legislatively established fiscal limits.

For 2014, the 103rd Legislature appropriated a total of \$98,798,054 to the Department for personal services, as follows:

- LB 195 provided an initial appropriation of \$94,802,231 and also reappropriated unexpended General Fund and Cash Fund appropriation balances existing on June 30, 2013, which amounted to an additional \$3,726,539.
- LB 483A appropriated \$250,000.
- LB 905 then revised the appropriations in LB 195 to \$94,821,515, an increase of \$19,284.

Department personal service expenditures for fiscal year 2014, including expenditures obligated in fiscal year 2014 and paid in fiscal year 2015, totaled \$99,224,714. Thus, the Department exceeded its appropriated personal service spending authority by \$426,660.

The Department was not in compliance with the spending limitations established by the State Legislature.

We recommend the Department implement controls to ensure it operates within the spending limitations established by the State Legislature.

Department Response: Personal Service Limitation is monitored and projections were estimated on a month by month basis for FY2014-2015. In fiscal year 2014 the Department experienced retirements or terminations that totaled in excess of \$500,000 of final wages and benefits.

7. On-Call Hours

AR 112.12(I)(A)(9), “Compensation: Timekeeping, Overtime, Pay Warrants and Flex Time,” states the following:

The overtime eligible employee who is required to be on call/standby status is compensated at 8% of the normal hourly rate of pay for each hour of being on call/standby status. Required is defined as advance written supervisory approval. In extenuating circumstances when it is not possible to get advanced approval in writing, the supervisor shall review the pay for the Officer of the Day duties and approve it after the fact. Examples of which include OD duty, e.g., a Maintenance employee being ready to return to the facility; an IT Help Desk employee required to respond to emergencies, and so forth. If the overtime eligible employee on an on call/standby status returns to the facility, the method of compensation changes to a call back pay status. Upon clocking-out of the facility, the employee returns to their on call/standby status.

A good internal control plan requires time entered into KRONOS, the Department’s time-keeping system, by supervisors for on-call hours to be reviewed by a second individual for accuracy.

During our testing of payroll, which included testing five employees who were paid for on-call hours, we noted the following:

- The Department did not have a written policy regarding the review of on-call hours. On-call hours were manually entered into KRONOS by the employees’ supervisors and were usually entered as a lump sum of hours, rather than by day. Employee timesheets were approved by Human Resources staff, who did not recalculate the on-call hours for accuracy or obtain documentation to support that the employees were scheduled to be on call.
- No documentation was on file to support that two employees were scheduled to be on call for the weeks tested and, thus, to support the on-call hours paid to them.
- One employee tested was paid 99 on-call hours for August 18, 2014, through August 24, 2014, but should have been paid 120 on-call hours, a variance of 21 hours or \$27.

When a secondary review of on-call hours is not completed, there is an increased risk those hours could be calculated incorrectly or entered inaccurately into KRONOS, resulting in improper payments to the employees.

We recommend the Department implement policies and procedures for Human Resources to receive documentation of schedules that show when employees are on call and recalculate a sample of on-call employees every pay period to ensure supervisors are correctly calculating and entering on-call hours into KRONOS.

Department Response: Supervisors are the most knowledgeable as to who is on-call on a specific day or week. As part of the payroll verification process we will review a percentage of employees that received on-call pay to verify hours and pay calculation.

8. Capital Asset Controls

A good internal control plan should include a proper segregation of duties, so no one individual is capable of handling all phases of a process from beginning to end. Such a system should also include a documented periodic review of capital asset reports by someone who does not maintain capital asset records.

A good internal control plan and sound business practice also require procedures to ensure all capital asset records are complete and accurate.

The Department lacked an adequate segregation of duties over capital assets, as one employee was capable of maintaining capital asset records, adding and removing assets from the records, and ensuring all items purchased were added to capital asset records. Additionally, there was no documented periodic review of the capital asset Additions and Retirements report to ensure all purchased assets were appropriately added and only properly surplus assets were removed from the capital asset records. The Department also did not review all of the capital asset Integrity Reports, which should be run to identify potential errors in capital asset records.

The Department had two buildings on the Capital Assets with No Cost Integrity Report. The purpose of the report is to identify assets acquired by the Department that do not have a cost assigned to them. It appeared the Department had ran and reviewed the report; however, they took no corrective action for these two buildings. The Department explained initially that the buildings were not added to its inventory because they were fully depreciated. Subsequently, the Department claimed the buildings had been demolished. Through inquiry with the Department's Engineering staff and through personal observation, we were able to determine the buildings had not been demolished. Upon being acquired by the Department, the buildings should have been assigned a cost and been added to the capital asset records.

Without proper internal controls, there is an increased risk individuals could conceal errors, irregularities, or fraud. The Department's capital asset records are neither complete nor accurate, moreover, when all acquired assets are not reflected therein. Finally, without documented periodic reviews of capital asset reports, there is an increased risk errors will not be detected and corrected.

We recommend the Department establish procedures for a proper segregation of duties. We also recommend the Department implement documented periodic reviews of capital asset reports by an individual who does not maintain capital asset records. Further, we recommend the Department assign costs to the two buildings identified and add them to its capital asset records.

Department Response: All capital assets are coded by Accounting. The Unposted Fixed Asset and No Cost Integrity reports are reviewed at least monthly by Accounting. The only report that has not been reviewed is the Additions and Retirements report which will be assigned to an individual without authorization to make entries into Fixed Assets. We will request that the two buildings identified will be added to fixed assets in the Payroll and Financial Center.

9. Cornhusker State Industries (CSI) Private Venture Program Fees

Sound business practice requires documentation be maintained to support the reasonableness and appropriateness of fees charged.

CSI participates in the Prison Industry Enhancement Certification Program (PIECP), which is a Federal program that encourages States to establish inmate work routines that approximate private-sector employment opportunities. The program is designed to place inmates in a realistic work environment, pay them the prevailing local wage for comparable work, and enable them to acquire marketable skills to increase their potential for successful rehabilitation and meaningful employment upon release.

Each vendor contracting with CSI through PIECP as a “participating private venture” must do so under either the “customer” model or “employer” model. Under the customer model, CSI is responsible for paying inmate wages, which are subsequently reimbursed by the private venture entity. Under the employer model, the private venture entity sends the money to the Department for the inmate wages.

We tested 28 CSI receipts, of which 3 were from private venture partners employed under the customer model. CSI’s contractual agreement with each of these partners required the vendors to reimburse CSI for inmate payroll as well as remit a program fee, which was charged per hour of inmate labor. Per the Department, the PIECP fee was assessed to offset some of the CSI shops’ overhead costs, including supervision, utilities, and maintenance. However, CSI acknowledged lacking documentation to support how the program fee amount was determined.

The three CSI receipts tested that included PIECP fees were as follows:

- A \$5,475 receipt from a vendor included a program fee of \$2 per inmate labor hour. The total program fee included in the receipt was \$1,165.
- An \$826 receipt from a second vendor included a program fee of \$2 per inmate labor hour. The total program fee included in the receipt was \$179.
- A \$720 receipt from a third vendor included a program fee of \$3.10 per inmate labor hour. The total program fee included in the receipt was \$167.

When the Department does not retain support for how it determines PIECP fees, there is an increased risk those fees may be unreasonable and inappropriate.

We recommend the Department retain documentation supporting the PIECP fees charged to ensure they are not only sufficient to cover CSI overhead costs but also not excessive.

Department Response: A review will be completed in the next 90 days and determine if any adjustments need to be made.

10. Department Recycling

The Inmate Welfare and Club Accounts Fund (Fund) was established through LB 604 (2002), which is currently codified at Neb. Rev. Stat. § 83-915.01 (Reissue 2014). That statute provides the following:

The Inmate Welfare and Club Accounts Fund is created. The fund shall consist of revenue from soft drinks sold to inmates in the custody of the Department of Correctional Services, profit from departmental canteens, interest earned by the fund, interest on inmate trust funds pursuant to section 83-915, or other revenue at the department's discretion. The fund shall be used to provide recreational activities and equipment for inmates at all of the department's correctional facilities. The fund shall be administered by the Director of Correctional Services or his or her designee. Any money in the fund available for investment shall be invested by the state investment officer pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act.

Among the monies being deposited into the Fund is revenue from the recycling of discarded aluminum cans from soft drinks purchased by the inmates.

Eight of the Department's ten correctional facilities recycle the discarded inmate soft drink cans. During the period tested, those facilities deposited to the Fund a total \$7,377 from the recycling proceeds. See the table below for a summary of the deposits by facility.

Facility	Amount Deposited
NCYF	\$ 921
TSCI	2,685
CCC-L	361
CCC-O	317
NSP	1,887
LCC (Note 1)	468
OCC	738
Total	\$ 7,377

Note 1: DEC's recycling is combined with LCC's and all deposits are recorded to LCC.

Among other things, § 83-915.01 directs "revenue from soft drinks sold to inmates in the custody of the Department of Correctional Services" to be deposited into the Fund. That statute does not specify, however, that such revenue should include proceeds from recycling the inmates' discarded soft drink cans.

More importantly, a recycling program for all State facilities is to be carried out under the State Government Management Recycling Act (Act), which is set out at Neb. Rev. Stat. §§ 81-1183 to 81-1189 (Reissue 2014). Section 81-1186 of the Act says:

A program for the collection for recycling and sale of state government recyclable material shall be designed and implemented by the Department of Administrative Services in all state-operated buildings.

Section 81-1185 of the Act defines "state government recyclable material" to include "aluminum and other metals."

In addition to designing and implementing a recycling program for all State facilities, the Department of Administrative Services (DAS) is expressly designated by § 81-1187 of the Act as the exclusive seller of State government recyclable material, as follows:

The Department of Administrative Services shall obtain pricing information and shall contract to sell state government recyclable material for the best terms available in the marketplace.

Finally, § 81-1188 of the Act directs proceeds from the sale of State government recyclable material to be deposited into the Resource Recovery Fund and made available for transfer to the General Fund by the Legislature. That statute provides, in relevant part, the following:

The Resource Recovery Fund is created. The fund shall be administered by the Department of Administrative Services. All proceeds from the program required by section 81-1186 and fifteen percent of all proceeds from the sale of surplus property sold to be remanufactured or reprocessed shall be deposited in the fund. The fund shall be used for the administration and implementation of the program, except that transfers from the fund to the General Fund may be made at the direction of the Legislature.

Any money in the Resource Recovery Fund available for investment shall be invested by the state investment officer pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act.

Given all the above, the Department appears to lack the statutory authority, express or otherwise, to recycle aluminum soft drink cans discarded by inmates and to deposit the resulting proceeds to the Fund.

Such apparent lack of authority is problematic because the Nebraska Supreme Court has opined, “Administrative bodies . . . have only that authority specifically conferred upon them by statute or by construction necessary to achieve the purpose of the relevant act.” *Southeast Rural Volunteer Fire Dep’t v. Nebraska Dep’t of Revenue, Charitable Gaming Div.*, 251 Neb. 852, 867, 560 N.W.2d 436, 446 (1997). Furthermore, according to the Court, “That authority which is necessary to accomplish the purposes of an act must be narrowly construed.” *University Police Officers Union, etc. v. University of Nebraska*, 203 Neb. 4, 13, 277 N.W.2d 529, 535 (1979).

Moreover, the Act provides a clear legislative directive for DAS alone to carry out the State’s recycling program, to deposit the proceeds into the Resource Recovery Fund, and to make that money available for transfer to the General Fund.

Consequently, we question the propriety of the Department’s recycling aluminum soft drink cans discarded by inmates and depositing the resulting proceeds to the Fund. In response to our inquiries regarding this issue, both DAS and the Department asserted that such activity is acceptable because the inmate soft drink cans at issue are not “state government recyclable material” for purposes of the Act; rather, both agencies claim, the cans are purchased by and, therefore, belonged to the inmates.

We disagree with that contention. Case law in various jurisdictions holds that trash, such as the empty soft drink cans discarded by the inmates, constitutes abandoned property whose ownership passes to the collector thereof. See *National Serv-All v. Indiana Dep’t of State Revenue*, 644 N.E.2d 954 (1994).

Throughout the eight correctional facilities that recycle aluminum, the inmates discard their empty soft drink cans – doing so with no expectation of retaining their former individual property rights in them – into communal trash receptacles owned and maintained by the State. The commingled contents of those containers are emptied and collected by, or under the direction of, facility staff and transported on State vehicles, driven by facility employees, to the recycling centers, except for TSCI where the vendor collects the recycling at the facility. Payment for the recycled materials is made via receipt and cash or check made payable to either the State of Nebraska, the Department of Corrections, or the individual correctional facilities.

Based upon the routine activities described above, it seems apparent that ownership of the discarded soft drink cans at issue follows their intentional abandonment by the inmates and subsequent collection by the State through the correctional facility staff.

The only exception among the eight participating facilities to the standard recycling routine occurs at the Community Corrections Center – Lincoln, where there are two separate payees for the recycling proceeds: 1) the Fund, 90%; and 2) the Employee Activity Committee, 10%. If, as claimed by DAS and the Department, the inmates retain an ownership interest in the recycled cans, it is incongruous that an apparently arbitrary percentage of the proceeds for those materials should be credited to the Employee Activity Committee.

By collecting and exercising custody and control over empty aluminum soft drink cans discarded by inmates, the State assumes ownership of those items – making them “state government recyclable material” for purposes of the Act. Accordingly, the Department lacks the authority to contravene the Act by allowing its facilities to recycle independently the discarded inmate soft drink cans or to deposit the resulting proceeds into the Fund.

We recommend the Department make arrangements with DAS for recycling discarded inmate soft drink cans in accordance with the provisions of the Act, including the deposit of all resulting proceeds into the Resource Recovery Fund.

Department Response: The Department will enter into conversations with DAS Materiel to manage this process and will request a legislative change to statute 83-915.01.

APA Response: On May 12, 2015, the Legislature Advanced to Enrollment and Review for Engrossment Legislative Bill 605, which will then proceed to Final Reading. Legislative Bill 605, as currently amended and written, contains language that would clarify and possibly resolve this issue.

Our examination procedures are designed primarily on a test basis and, therefore, may not bring to light all weaknesses in policies or procedures that may exist.

Because we have not completed our examination of the Department, additional matters may be identified and communicated in our final report. In addition, the comments noted in this letter may be modified in the final report.

This interim communication is intended solely for the information and use of the Department, its management, the Governor, and the State Legislature. It is not intended to be, and should not be, used by anyone other than the specified parties. However, this letter is a matter of public record, and its distribution is not limited.

If you have any questions regarding the above information, please contact our office.

Sincerely,

A handwritten signature in black ink, appearing to read "C. Janssen", with a long horizontal flourish extending to the right.

Charlie Janssen
Auditor of Public Accounts

Exhibit 1

Department of Correctional Services
Canteen Adjustments to Inventory

	Facility	Item Description	Quantity Change	Cost per Item	Dollar Amount Change	Adjustment Date
1	NSPS1 - Adjustment 1	Soap, Bar Lever 2000 w/ Aloe	139	\$ 0.730	\$ 101.47	6/27/2014
2	NSPS1 - Adjustment 2	Shoes, Nike Dart IX Med Width	2	\$ 44.340	\$ 88.68	6/28/2014
3	NSPS1 - Adjustment 2	Short, Dbl Mesh w/ Pocket S-3XL	7	\$ 11.500	\$ 80.50	6/28/2014
4	NSPS1 - Adjustment 2	Sweat Pants, Gray 3XL-6XL	7	\$ 20.250	\$ 141.75	6/28/2014
5	NSPS1 - Adjustment 2	CD Player, Sony	(1)	\$ 51.990	\$ (51.99)	6/28/2014
6	NSPS1 - Adjustment 3	Adhesive, Denture Poligrip 1.4	14	\$ 3.753	\$ 52.54	6/28/2014
7	NSPS1 - Adjustment 3	Ball, Raquet Penn, 3 Pk	24	\$ 3.150	\$ 75.60	6/28/2014
8	NSPS1 - Adjustment 3	Beans, Refried/Rice, Hot Chili	78	\$ 0.510	\$ 39.78	6/28/2014
9	NSPS1 - Adjustment 3	Beans, Rice, Chili Flavor	(50)	\$ 0.500	\$ (25.00)	6/28/2014
10	NSPS1 - Adjustment 3	Body Wash, Suave Ocean Breeze	57	\$ 2.280	\$ 129.96	6/28/2014
11	NSPS1 - Adjustment 3	Candy Bar, Nutrageous	(80)	\$ 0.650	\$ (52.00)	6/28/2014
12	NSPS1 - Adjustment 3	Candy Bar, Nutrageous	52	\$ 0.650	\$ 33.80	6/28/2014
13	NSPS1 - Adjustment 3	Candy Bar, Starburst Orig	(42)	\$ 0.850	\$ (35.70)	6/28/2014
14	NSPS1 - Adjustment 3	Candy, Bag Hot Tamales	(39)	\$ 1.950	\$ (76.05)	6/28/2014
15	NSPS1 - Adjustment 3	Chili, w/ Beans, Hot, Brushy Creek	(45)	\$ 1.130	\$ (50.85)	6/28/2014
16	NSPS1 - Adjustment 3	Coffee, Col Frz Drd, 3 oz	(24)	\$ 1.920	\$ (46.08)	6/28/2014
17	NSPS1 - Adjustment 3	Cookie, Iced Oatmeal, Zippy	(36)	\$ 1.100	\$ (39.60)	6/28/2014
18	NSPS1 - Adjustment 3	Deodorant, Dial Roll On 1.5 oz	(163)	\$ 0.850	\$ (138.55)	6/28/2014
19	NSPS1 - Adjustment 3	Deodorant, Dial Rollon, Sctd	110	\$ 0.850	\$ 93.50	6/28/2014
20	NSPS1 - Adjustment 3	Deodorant, Speed Stick A/P Talc	(31)	\$ 1.880	\$ (58.28)	6/28/2014
21	NSPS1 - Adjustment 3	Earbud, Audio Koss CL-3	(52)	\$ 2.280	\$ (118.56)	6/28/2014
22	NSPS1 - Adjustment 3	Headphone, Earbuds Sony MDR-J10	(27)	\$ 8.250	\$ (222.75)	6/28/2014
23	NSPS1 - Adjustment 3	Meat, Beef Saug Ht/Sp Obrien 50	105	\$ 1.400	\$ 147.00	6/28/2014
24	NSPS1 - Adjustment 3	Meat, Chicken Breast Brushy Crk	(42)	\$ 1.597	\$ (67.07)	6/28/2014
25	NSPS1 - Adjustment 3	Meat, Ham Sweet Sue Chnk 7 oz	(15)	\$ 2.810	\$ (42.15)	6/28/2014
26	NSPS1 - Adjustment 3	Meat, Pc Taco Filling	(35)	\$ 1.780	\$ (62.30)	6/28/2014
27	NSPS1 - Adjustment 3	Meat, Pepperoni Sliced Hormel	(25)	\$ 1.380	\$ (34.50)	6/28/2014
28	NSPS1 - Adjustment 3	Meat, Salami O'Brien	(39)	\$ 1.400	\$ (54.60)	6/28/2014
29	NSPS1 - Adjustment 3	Meat, Turkey Sticks, Cured	106	\$ 0.460	\$ 48.76	6/28/2014
30	NSPS1 - Adjustment 3	Nuts, Kar Sw & Salty, 2 oz	186	\$ 0.480	\$ 89.28	6/28/2014
31	NSPS1 - Adjustment 3	Sausage, Legendary Beef Summer	(22)	\$ 1.250	\$ (27.50)	6/28/2014

Exhibit 1

Department of Correctional Services
Canteen Adjustments to Inventory

	Facility	Item Description	Quantity Change	Cost per Item	Dollar Amount Change	Adjustment Date
32	NSPS1 - Adjustment 3	Shampoo, Suave, Green Apple	(49)	\$ 1.130	\$ (55.37)	6/28/2014
33	NSPS1 - Adjustment 3	Soap, Bar Dial Deodorant 4.0 oz	(235)	\$ 0.520	\$ (122.20)	6/28/2014
34	NSPS1 - Adjustment 3	Tumbler, White 22 oz	120	\$ 0.270	\$ 32.40	6/28/2014
35	NSPS1 - Adjustment 3	Tumbler, With Lid, 22 oz	(240)	\$ 0.240	\$ (57.60)	6/28/2014
36	NSPS1 - Adjustment 3	Xmas Meat, Beef Shred Comal	(27)	\$ 3.750	\$ (101.25)	6/28/2014
37	NSPS1 - Adjustment 3	Xmas Treat, Rice Krispie Choc	(84)	\$ 0.540	\$ (45.36)	6/28/2014
38	NSPS2 - Adjustment 1	Gatorade, Fruit Punch, 2.12	114	\$ 0.410	\$ 46.74	6/27/2014
39	NSPS2 - Adjustment 1	Candy, Starlite Mints	(169)	\$ 0.420	\$ (70.98)	6/27/2014
40	NSPS2 - Adjustment 2	Adhesive, Denture Staydent	74	\$ 2.100	\$ 155.40	6/28/2014
41	NSPS2 - Adjustment 2	Antacid, Tums	(59)	\$ 0.720	\$ (42.48)	6/28/2014
42	NSPS2 - Adjustment 2	Battery, AA Ion 3	78	\$ 0.680	\$ 53.04	6/28/2014
43	NSPS2 - Adjustment 2	Brownie, Fudge, Choc Chip, Zippy	(26)	\$ 1.330	\$ (34.58)	6/28/2014
44	NSPS2 - Adjustment 2	Cable, Splitter	(42)	\$ 0.860	\$ (36.12)	6/28/2014
45	NSPS2 - Adjustment 2	Candy Bar, Hershey Almond	(59)	\$ 0.650	\$ (38.35)	6/28/2014
46	NSPS2 - Adjustment 2	Candy Bar, Hershey Milk Chc	(246)	\$ 0.650	\$ (159.90)	6/28/2014
47	NSPS2 - Adjustment 2	Candy Bar, Nutrageous	(85)	\$ 0.650	\$ (55.25)	6/28/2014
48	NSPS2 - Adjustment 2	Candy Bar, Snickers 1.86 oz	(88)	\$ 0.650	\$ (57.20)	6/28/2014
49	NSPS2 - Adjustment 2	Candy, Atomic Balls	(103)	\$ 0.420	\$ (43.26)	6/28/2014
50	NSPS2 - Adjustment 2	Candy, M&M's, Peanut	(28)	\$ 2.710	\$ (75.88)	6/28/2014
51	NSPS2 - Adjustment 2	Candy, M&M's, Plain	(38)	\$ 2.710	\$ (102.98)	6/28/2014
52	NSPS2 - Adjustment 2	Candy, Peanut Clusters 5 oz	(51)	\$ 1.140	\$ (58.14)	6/28/2014
53	NSPS2 - Adjustment 2	Candy, Twizzlers, 5 oz	50	\$ 0.810	\$ 40.50	6/28/2014
54	NSPS2 - Adjustment 2	Card, Greeting	(534)	\$ 0.250	\$ (133.50)	6/28/2014
55	NSPS2 - Adjustment 2	Card, Greeting	809	\$ 0.250	\$ 202.25	6/28/2014
56	NSPS2 - Adjustment 2	Card, Greeting Ea	613	\$ 1.050	\$ 643.65	6/28/2014
57	NSPS2 - Adjustment 2	Card, Greeting Samhain	(62)	\$ 1.800	\$ (111.60)	6/28/2014
58	NSPS2 - Adjustment 2	Cheese Stick, Jalapeno	(511)	\$ 0.920	\$ (470.12)	6/28/2014
59	NSPS2 - Adjustment 2	Cheese, Cactus Annie Sharp	(238)	\$ 1.570	\$ (373.66)	6/28/2014
60	NSPS2 - Adjustment 2	Chips, Cactus Annie Habanero	51	\$ 1.170	\$ 59.67	6/28/2014
61	NSPS2 - Adjustment 2	Chips, Moon Lodge Hot BBQ	(51)	\$ 0.770	\$ (39.27)	6/28/2014
62	NSPS2 - Adjustment 2	Coffee, Foldgers Instant, 8 oz	86	\$ 4.960	\$ 426.56	6/28/2014

Exhibit 1

Department of Correctional Services
Canteen Adjustments to Inventory

	Facility	Item Description	Quantity Change	Cost per Item	Dollar Amount Change	Adjustment Date
63	NSPS2 - Adjustment 2	Comb, Hair Pocket 5 in	295	\$ 0.020	\$ 5.90	6/28/2014
64	NSPS2 - Adjustment 2	Conditioner, Pantene Pro-V	(18)	\$ 4.100	\$ (73.80)	6/28/2014
65	NSPS2 - Adjustment 2	Cookie, Chocolate Chip ZC	(104)	\$ 0.310	\$ (32.24)	6/28/2014
66	NSPS2 - Adjustment 2	Cough Drops, Halls Mentho, 30	(24)	\$ 1.650	\$ (39.60)	6/28/2014
67	NSPS2 - Adjustment 2	Crackers, Ritz Sandw w/ cheese	(358)	\$ 0.225	\$ (80.55)	6/28/2014
68	NSPS2 - Adjustment 2	Deodorant, Dial Roll On 1.5 oz	(275)	\$ 0.850	\$ (233.75)	6/28/2014
69	NSPS2 - Adjustment 2	Deodorant, Speed Stick Ocean	(36)	\$ 1.880	\$ (67.68)	6/28/2014
70	NSPS2 - Adjustment 2	Earbud, Audio Koss CL-3	46	\$ 2.280	\$ 104.88	6/28/2014
71	NSPS2 - Adjustment 2	Envelope, 10 X 13, No Clasp	(522)	\$ 0.052	\$ (27.14)	6/28/2014
72	NSPS2 - Adjustment 2	File Folder, Single Multi Color	(1011)	\$ 0.080	\$ (80.88)	6/28/2014
73	NSPS2 - Adjustment 2	Gatorade, Lemon-Lime 2.12 oz	148	\$ 0.410	\$ 60.68	6/28/2014
74	NSPS2 - Adjustment 2	Gum, Doublemint	(96)	\$ 0.390	\$ (37.44)	6/28/2014
75	NSPS2 - Adjustment 2	Headphone, Cable 6 Foot 1/4"	67	\$ 1.270	\$ 85.09	6/28/2014
76	NSPS2 - Adjustment 2	Headphone, Earbuds Sony MDR-J10	(12)	\$ 8.250	\$ (99.00)	6/28/2014
77	NSPS2 - Adjustment 2	Hi Liter, Green	(264)	\$ 0.228	\$ (60.19)	6/28/2014
78	NSPS2 - Adjustment 2	Highlighter, Pink	(190)	\$ 0.228	\$ (43.32)	6/28/2014
79	NSPS2 - Adjustment 2	Lotion, Jergens, Chry Almd 10 oz	(38)	\$ 3.470	\$ (131.86)	6/28/2014
80	NSPS2 - Adjustment 2	Lotion, Lubricating, 8 oz	84	\$ 0.990	\$ 83.16	6/28/2014
81	NSPS2 - Adjustment 2	Meat, Bacon, Single Serve	(100)	\$ 1.290	\$ (129.00)	6/28/2014
82	NSPS2 - Adjustment 2	Meat, Beef Saug Ht/Sp Obrien 50	(148)	\$ 1.400	\$ (207.20)	6/28/2014
83	NSPS2 - Adjustment 2	Meat, Chicken Breast Brushy Crk	(305)	\$ 1.597	\$ (487.09)	6/28/2014
84	NSPS2 - Adjustment 2	Meat, Ham Sweet Sue Chnk 7 oz	(27)	\$ 2.810	\$ (75.87)	6/28/2014
85	NSPS2 - Adjustment 2	Meat, Pepperoni Bridgeford 3.5 oz	(110)	\$ 1.350	\$ (148.50)	6/28/2014
86	NSPS2 - Adjustment 2	Meat, Salami O'Brien	(82)	\$ 1.400	\$ (114.80)	6/28/2014
87	NSPS2 - Adjustment 2	Meat, Salmon Flakes, 3.53 oz	(105)	\$ 0.980	\$ (102.90)	6/28/2014
88	NSPS2 - Adjustment 2	Meat, Tuna Sp/Thai Chili	(110)	\$ 1.390	\$ (152.90)	6/28/2014
89	NSPS2 - Adjustment 2	Mouthwash, Crest Pro Health	(29)	\$ 3.220	\$ (93.38)	6/28/2014
90	NSPS2 - Adjustment 2	Nasal Spray, Afrin 1/2 oz	(106)	\$ 0.710	\$ (75.26)	6/28/2014
91	NSPS2 - Adjustment 2	Nuts, Kar Sw & Salty, 2 oz	(130)	\$ 0.480	\$ (62.40)	6/28/2014
92	NSPS2 - Adjustment 2	Paper, Pad Legal 8.5" X 11"	(215)	\$ 0.399	\$ (85.79)	6/28/2014
93	NSPS2 - Adjustment 2	Shampoo, Pantene	(27)	\$ 4.100	\$ (110.70)	6/28/2014

Exhibit 1

Department of Correctional Services
Canteen Adjustments to Inventory

	Facility	Item Description	Quantity Change	Cost per Item	Dollar Amount Change	Adjustment Date
94	NSPS2 - Adjustment 2	Soup, Texas Beef, Hot & Spicy	(223)	\$ 0.340	\$ (75.82)	6/28/2014
95	NSPS2 - Adjustment 2	Sugar Cubes C&H	(47)	\$ 1.390	\$ (65.33)	6/28/2014
96	NSPS2 - Adjustment 2	Tuna, Jalapeno	(135)	\$ 1.860	\$ (251.10)	6/28/2014
97	LCC - Adjustment 1	Candy, Chick-O-Stick, .7 oz	(38)	\$ 0.125	\$ (4.75)	6/30/2014
98	LCC - Adjustment 1	Candy, Twix Caramel Bar	(59)	\$ 0.650	\$ (38.35)	6/30/2014
99	LCC - Adjustment 1	Cap, Baseball Gray	(12)	\$ 1.810	\$ (21.72)	6/30/2014
100	LCC - Adjustment 1	Card, Greeting Miss You	(91)	\$ 0.250	\$ (22.75)	6/30/2014
101	LCC - Adjustment 1	Cheese, City Cow Nacho w/ Jlpno	49	\$ 0.580	\$ 28.42	6/30/2014
102	LCC - Adjustment 1	Chips, CA, Hot & Spicy, Pork Rinds	41	\$ 0.470	\$ 19.27	6/30/2014
103	LCC - Adjustment 1	Chips, Moon Lodge Hot BBQ	26	\$ 0.770	\$ 20.02	6/30/2014
104	LCC - Adjustment 1	Cookie, Chocolate Chip ZC	106	\$ 0.310	\$ 32.86	6/30/2014
105	LCC - Adjustment 1	Crackers, Ritz Peanut Butter	(47)	\$ 0.225	\$ (10.58)	6/30/2014
106	LCC - Adjustment 1	Emery Boards, Trim	37	\$ 0.480	\$ 17.76	6/30/2014
107	LCC - Adjustment 1	Game, Pinochle Cards, Maverick	(36)	\$ 0.890	\$ (32.04)	6/30/2014
108	LCC - Adjustment 1	Game, Poker Cards, Maverick	33	\$ 0.890	\$ 29.37	6/30/2014
109	LCC - Adjustment 1	Headphone, Adptr 1/8 to 1/4	(27)	\$ 0.600	\$ (16.20)	6/30/2014
110	LCC - Adjustment 1	Headphone, Adptr 1/4 - 1/8	22	\$ 0.600	\$ 13.20	6/30/2014
111	LCC - Adjustment 1	Headphone, Cable 6 Foot 1/4"	87	\$ 1.270	\$ 110.49	6/30/2014
112	LCC - Adjustment 1	July 4 Cookies & Cream Malt	97	\$ 0.580	\$ 56.26	6/30/2014
113	LCC - Adjustment 1	July 4 Orange Sherbert	(58)	\$ 0.780	\$ (45.24)	6/30/2014
114	LCC - Adjustment 1	Paper, Pad Legal 8.5" X 11"	(82)	\$ 0.399	\$ (32.72)	6/30/2014
115	LCC - Adjustment 1	Soap, Bar Caress Silky Blossom	(49)	\$ 0.970	\$ (47.53)	6/30/2014
116	LCC - Adjustment 1	Soap, Bar Dial Deodorant 4.0 oz	90	\$ 0.520	\$ 46.80	6/30/2014
117	LCC - Adjustment 1	Soup, Maruchan Cal Veg	(32)	\$ 0.340	\$ (10.88)	6/30/2014
118	LCC - Adjustment 1	Spoons, Plastic Ea Med Weight	986	\$ 0.007	\$ 6.90	6/30/2014
119	LCC - Adjustment 1	Toothbrush, Tek, Pro	73	\$ 0.290	\$ 21.17	6/30/2014
120	TSCI - Adjustment 1	Battery, AA Panasonic 4 Pk	6	\$ 0.950	\$ 5.70	6/30/2014
121	TSCI - Adjustment 1	Battery, AAA Rayovac	(6)	\$ 3.780	\$ (22.68)	6/30/2014
122	TSCI - Adjustment 1	Body Puff	(19)	\$ 0.630	\$ (11.97)	6/30/2014
123	TSCI - Adjustment 1	Chips, Cactus Annie Habanero	(37)	\$ 1.170	\$ (43.29)	6/30/2014
124	TSCI - Adjustment 1	Dictionary, Spanish to English	56	\$ 1.130	\$ 63.28	6/30/2014

Exhibit 1

Department of Correctional Services
Canteen Adjustments to Inventory

	Facility	Item Description	Quantity Change	Cost per Item	Dollar Amount Change	Adjustment Date
125	TSCI - Adjustment 1	Dictionary, Webster, Eng/Spanish	(56)	\$ 1.720	\$ (96.32)	6/30/2014
126	TSCI - Adjustment 1	Floss, Dental Loops	(12)	\$ 1.560	\$ (18.72)	6/30/2014
127	TSCI - Adjustment 1	Headphone, Adptr 1/8 to 1/4	(31)	\$ 1.340	\$ (41.54)	6/30/2014
128	TSCI - Adjustment 1	Headphone, Mono Stero Adpt	(28)	\$ 0.690	\$ (19.32)	6/30/2014
129	TSCI - Adjustment 1	Lock, Master Craft, Heavy Duty	(6)	\$ 12.000	\$ (72.00)	6/30/2014
130	TSCI - Adjustment 1	Meat, Salmon Flakes, 3.53 oz	(69)	\$ 0.980	\$ (67.62)	6/30/2014
131	TSCI - Adjustment 1	Pen, BIC, Med, Blue	(162)	\$ 0.070	\$ (11.34)	6/30/2014
132	TSCI - Adjustment 2	Stamped Envelopes, Legal 2014	500	\$ 0.550	\$ 275.00	6/30/2014
133	OCC - Adjustment 3	Battery, AAA 4 Pack Generic	(46)	\$ 0.680	\$ (31.28)	6/30/2014
134	OCC - Adjustment 3	Card, Greeting	70	\$ 0.250	\$ 17.50	6/30/2014
135	OCC - Adjustment 3	Card, Greeting Miss You	(28)	\$ 0.250	\$ (7.00)	6/30/2014
136	OCC - Adjustment 3	Card, Greeting PR 2	(75)	\$ 1.050	\$ (78.75)	6/30/2014
137	OCC - Adjustment 3	Cookie, Chocolate Chip, Zippy	(74)	\$ 0.490	\$ (36.26)	6/30/2014
138	OCC - Adjustment 3	ID Holder w/ Clip, Clear	(16)	\$ 1.060	\$ (16.96)	6/30/2014
139	OCC - Adjustment 3	Meat, Hot Beef Summer Sausage	16	\$ 1.250	\$ 20.00	6/30/2014
140	OCC - Adjustment 3	Meat, Sliced Salami	18	\$ 1.480	\$ 26.64	6/30/2014
141	OCC - Adjustment 3	Paper, Buff, 8.5 X 11	(280)	\$ 0.010	\$ (2.80)	6/30/2014
142	OCC - Adjustment 3	Paper, White, 8.5 X 11, 20# O Depot	1056	\$ 0.010	\$ 10.56	6/30/2014
143	OCC - Adjustment 3	Pop Tart, Toastum, Keefe	(23)	\$ 1.020	\$ (23.46)	6/30/2014
144	OCC - Adjustment 3	Pop Tokens	(58)	\$ 0.500	\$ (29.00)	6/30/2014
145	OCC - Adjustment 3	Spoons, Plastic, 3 Pk Med Weight	846	\$ 0.022	\$ 18.61	6/30/2014
146	OCC - Adjustment 3	Tortillas, Cactus Annie	50	\$ 0.480	\$ 24.00	6/30/2014
147	OCC - Adjustment 1	Calculator	(30)	\$ 2.970	\$ (89.10)	12/31/2014
148	OCC - Adjustment 1	Candy, Twizzlers, 5 oz	19	\$ 0.810	\$ 15.39	12/31/2014
149	OCC - Adjustment 1	Copy Tokens	(23)	\$ 0.100	\$ (2.30)	12/31/2014
150	OCC - Adjustment 1	Folders, Colored	(26)	\$ 0.080	\$ (2.08)	12/31/2014
151	OCC - Adjustment 1	Jellies, Single Mixed Fruit	(22)	\$ 0.040	\$ (0.88)	12/31/2014
152	OCC - Adjustment 1	Meat, Chicken Breast Brushy Crk	(15)	\$ 1.597	\$ (23.96)	12/31/2014
153	OCC - Adjustment 1	Meat, Spam 3 oz	(12)	\$ 1.080	\$ (12.96)	12/31/2014
154	OCC - Adjustment 1	Paper, Buff, 8.5 X 11	(110)	\$ 0.010	\$ (1.10)	12/31/2014
155	OCC - Adjustment 1	Paper, White, 8.5 X 11, 20# O Depot	1274	\$ 0.010	\$ 12.74	12/31/2014

Exhibit 1

Department of Correctional Services
Canteen Adjustments to Inventory

	Facility	Item Description	Quantity Change	Cost per Item	Dollar Amount Change	Adjustment Date
156	OCC - Adjustment 1	Peppers, Cactus Annie Jalape O	24	\$ 0.950	\$ 22.80	12/31/2014
157	OCC - Adjustment 1	Salad Dress, Mir Whip Thompson	(202)	\$ 0.085	\$ (17.17)	12/31/2014
158	OCC - Adjustment 1	Wash, Body Suave Ocean Breeze	(6)	\$ 2.280	\$ (13.68)	12/31/2014
159	OCC - Adjustment 1	X-Mas Pie, Pecan Fancy Southern	(42)	\$ 0.550	\$ (23.10)	12/31/2014
160	OCC - Adjustment 1	Xmas Meat, Sausage Summer Chedd	(6)	\$ 3.550	\$ (21.30)	12/31/2014
161	CCC-L - Adjustment 3	Bowl, Disposable, 5 oz	(299)	\$ 0.400	\$ (119.60)	6/13/2014
162	CCC-L - Adjustment 3	Bowl, Disposable 12 oz 2 Pk CCL	299	\$ 0.030	\$ 8.97	6/13/2014
163	CCC-L - Adjustment 4	Bag, Canteen Green Handled	(3)	\$ 3.800	\$ (11.40)	6/30/2014
164	CCC-L - Adjustment 4	Card, Greeting Ea	(137)	\$ 1.050	\$ (143.85)	6/30/2014
165	CCC-L - Adjustment 5	Candy, Gracey Sugar Free, 3.25 oz	(8)	\$ 1.130	\$ (9.04)	6/30/2014
166	CCC-L - Adjustment 5	Candy, Sour Brite Crawlers	(13)	\$ 1.350	\$ (17.55)	6/30/2014
167	CCC-L - Adjustment 5	Meat, Beef Saug Ht/Sp Obrien 50	(8)	\$ 1.400	\$ (11.20)	6/30/2014
168	CCC-L - Adjustment 5	Meat, Chicken Breast Brushy Crk	(7)	\$ 1.597	\$ (11.18)	6/30/2014
169	NCYF - Adjustment 1	TV, RCA Color Digital No Remote	2	\$ 150.000	\$ 300.00	6/12/2014

* The APA originally requested documentation on February 23, 2015, to support the adjustment. The Facility responded on March 10, 2015, and noted that they were unable to see product sales in CIT for the month for these items. On April 10, 2015, the Facility provided the APA documentation that these items were received into CIT incorrectly, therefore the adjustment appeared reasonable and supported. However, the APA still included in the exhibit as it didn't appear the Facility researched these items at the time the adjustment was made.

Exhibit 2

Department of Correctional Services
UL Assets as of December 31, 2014

	Asset Description	Date Acquired	Cost	See Note
1	Rough Planer, 25 In.	10/1/2007	\$ 8,798	X
2	Tilt Grill, Electric	6/6/2007	8,330	X
3	Boring Block Machine	2/13/2006	7,500	X
4	Shelving	9/1/1998	6,960	X
5	Remote Sampler	5/12/2003	5,611	X
6	Camera-Security Camera	1/1/1999	5,233	X
7	Food Cutter	11/25/2003	4,979	X
8	Scanner-Scoring & Testing	5/14/2014	4,637	
9	Meat Slicer	7/1/1999	4,559	X
10	Troy Extractor	3/1/1975	4,500	X
11	Desk Top Touchscreen	6/1/2001	4,155	X
12	Desk Top Touchscreen	8/20/2003	4,155	X
13	Cabinet Proofing Cres-Cor	4/1/1984	3,907	X
14	Table Saw	10/1/2007	3,730	X
15	Security-Monitor,15" XGA Touch	9/28/2011	3,601	X
16	Air Compressor-Dental	3/8/2014	3,600	
17	Laptop-Gateway Solo 9100	2/1/1999	3,535	X
18	Scanner	3/24/2003	3,500	X
19	Phoropter Rx Master	6/1/1980	3,456	X
20	Tonometer Non-Contact	6/1/1976	3,426	X Y
21	Dental Chair	12/1/1991	3,400	X
22	Chair Mounted Dental Unit	6/1/2002	3,350	X
23	Projector-View Sonic	4/1/2000	3,295	X
24	Monitor-Touch Screen	6/30/2009	3,164	X
25	Projector-View Sonic	10/1/2000	3,138	X
26	Voice Recorder	11/10/2003	3,048	X
27	Bill Changer W/Optional Dual	8/1/1983	2,777	X Y
28	Paper Shredder	8/1/1998	2,400	X Y
29	5 Camera Color Multiplexer	6/1/1996	2,200	X
30	Confer-Corder	2/1/2000	2,195	X
31	Base Station W/Surge Arrestor	6/1/1990	2,150	X
32	Steam Cleaner	5/1/1998	1,995	X Y
33	Chart File Cabinet	7/29/2008	1,972	X
34	Renaissance II Spirometry	10/13/2009	1,963	X
35	Xray-Mobile Machine	4/1/1984	1,916	X Y
36	Paper Shredder/Cart	1/1/1990	1,885	X Y
37	Encoder-Decoder	6/1/1990	1,870	X
38	Tape Recorder W/Amplifier	6/1/1976	1,845	X
39	Audiometer	11/1/1998	1,795	X
40	Timekeeper-Kronos 4500	9/1/2002	1,795	X
41	Speedrooter	12/1/1998	1,782	X
42	Grill, II Porta W/Bread Box	8/1/1989	1,775	X
43	EKG Machine	5/1/2006	1,700	X
44	Autoclave For Dental -White	11/1/1998	1,685	X Y
45	Systems Controller	1/7/2008	1,675	X
46	Laptop-Dell D610	5/8/2006	1,601	X
47	Oven-Gas 4 Burner Fry	11/1/1983	1,596	X
48	Laptop-Dell D600	4/23/2004	1,569	X
49	Television Console	6/1/1978	1,568	X
50	Shredder W/Stand -Heavy Duty	6/1/1994	1,532	X

Exhibit 2

Department of Correctional Services
UL Assets as of December 31, 2014

	Asset Description	Date Acquired	Cost	See Note
51	TV, 46"W RCA Super Shield	11/1/1994	1,505	X
52	DC Remote Sampler	11/1/2000	1,500	X
53	AED	7/31/2013	1,495	
54	Panasonic Camera	11/1/1999	1,488	X Y
55	Armor-Vest, Riot Control	7/12/2006	1,359	X
56	Armor-Vest, Riot Control	7/12/2006	1,359	X
57	Burnisher Clarke #1500	4/1/1986	1,249	X Y
58	PC-Dell Optiplex 745	10/11/2007	1,198	X
59	Armor-Body, TTTPV	2/12/2003	1,128	X
60	Camera-Video, GP-5AU	6/1/1980	1,100	X
61	PC-Dell Optiplex 745	8/16/2007	1,044	X
62	Camera-Video Pro-Line	7/1/1984	1,010	X
63	PC-Dell Optiplex GX520	7/12/2006	1,003	X
64	Armor-Ballistic Plate	2/1/1996	894	X
65	Armor-Ballistic Plate	6/1/1996	894	X
66	Armor-Vest, Safety W/Inserts	6/1/1996	894	X
67	Armor-Vest, Safety W/Inserts	6/1/1996	894	X
68	Armor-Ballistic Plate	5/12/2004	894	X
69	Refractometer	5/1/2002	840	X
70	Printer for Ionscan	11/1/2000	800	X
71	Server-Multiplex Unit	2/1/1999	750	X
72	Monitor	3/1/1996	718	X
73	Monitor-Security, Color 14"	5/1/1999	621	X
74	Monitor-Security, Color 14"	5/1/1999	621	X
75	Monitor-Security, Color 14"	5/1/1999	621	X
76	Monitor-Security, Color 14"	5/1/1999	621	X
77	Storage Cabinet Flamable 45	12/1/1985	593	X Y
78	Monitor-Color Monitor	6/1/1996	525	X
79	Color Monitor	6/1/1996	525	X
80	Hand Piece Quiet Air	12/1/1997	520	X Y
81	Color Video Monitor, 9"	4/1/1996	518	X
82	Alco Sensor With Case	8/1/1987	495	X Y
83	Recorder-Time Lapse, AG-RT650	12/1/2001	480	X
84	Body-Armor, Vest	5/22/2012	468	X
85	Kalatel Video Sequenser	4/1/1996	350	X
86	Armor-Vest, Tactical	6/1/2001	109	X
	Total Cost		<u>\$ 193,886</u>	

Note:

X - Indicates the asset was also UL as of 6/30/2012 and 6/30/2013

Y - Indicates the asset was also UL as of 6/30/2008