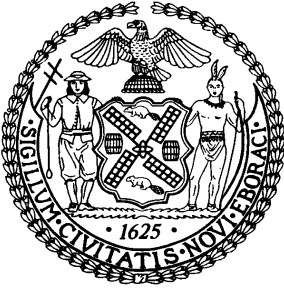


AUDIT REPORT



CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF MANAGEMENT AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Internal Controls Over Commissary Operations by The Department of Correction

MG04-117A

August 2, 2004



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, N.Y. 10007-2341

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, §93, of the New York City Charter, my office has examined the Department of Correction's internal controls over its commissary operations. The audit covered Fiscal Years 2003 and 2004 (through February 2004).

The results of our audit, which are presented in this report, have been discussed with the Department of Correction officials, and their comments were considered in the preparation of this report.

Audits such as this provide a means of ensuring that City resources are used effectively, efficiently, and in the best interest of the public.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please e-mail my audit bureau at audit@comptroller.nyc.gov or telephone my office at 212-669-3747.

Very truly yours,

A handwritten signature in cursive script that reads 'William C. Thompson, Jr.'.

William C. Thompson, Jr.

WCT/fh

Report: MG04-117A
Filed: August 2, 2004

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**The City of New York
Office of the Comptroller
Bureau of Management Audit**

**Audit Report on the Internal Controls
Over Commissary Operations by
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AUDIT REPORT IN BRIEF

The Department of Correction (DOC) manages 15 inmate jails (facilities), 10 of which are on Rikers Island. DOC also operates hospital prison wards, court detention facilities, warehouses, commissaries, and other support units. There are 10 commissaries: eight on Rikers Island, one in Manhattan, and one in the Bronx. The commissaries offer various items for sale that can be purchased by the inmates. (See Appendix I.) In Fiscal Year 2003, DOC reported commissary revenues of approximately \$14.2 million. This audit reviewed DOC internal controls over the commissary operations.

This audit was commenced at the request of the Department of Correction.

Audit Findings and Conclusions

Our review of DOC commissary operations disclosed that the commissaries are providing the intended services to inmates. However, we determined that internal control weaknesses exist that raise serious questions about the adequacy of the commissaries' controls over inventory and their compliance with DOC inventory procedures. Specifically, we found that the required quarterly inventory count performed by the George Motchan Detention Center (GMDC) and Eric M. Taylor Center (EMTC) commissaries on December 31, 2003, resulted in gross discrepancies of 94 and 89 percent respectively between the amounts of inventory on hand and the amounts reported in the inventory records. (The figures reflect the percentage of the number of items that had discrepancies in relation to the total number of items.) The GMDC and EMTC commissaries' physical counts, which we observed, were conducted by personnel who were actively involved in day-to-day commissary operations, even though DOC procedures prohibit the active participation of such personnel. Moreover, although we observed and verified the December count, the commissary managers recounted certain items, which resulted in adjustments to the quarterly inventory count and a reduction of the existing inventory variances. The results of the recounts, not the original inventory count results, were entered in the Inmate Financial Commissary Management (IFCOM) computer system that is used for recording all inventory data.

In addition to the required quarterly inventory counts, commissary managers frequently conduct interim periodic inventory counts, adjust the inventory figures recorded in IFCOM, and restate variances without notifying and obtaining approval from the Central Commissary Unit (CCU), as required. DOC requires that the commissaries notify the CCU at least one day prior to conducting a physical inventory count and also requires the facility to investigate each inventory dollar variance. However, from October 1, 2003, to December 30, 2003, all 10 commissaries made 398 adjustments to the IFCOM records because of discrepancies between physical inventory counts and the inventory records of certain items. In all cases, the commissaries failed to notify the appropriate parties of the inventory counts and the resulting variances between the physical count and the IFCOM records.

DOC allows for the “condemnation” (discarding) of commissary goods that are damaged or have expired, but requires the proper approval and authorization. However, commissaries frequently condemn and dispose of inventory items without the proper approval and authorization. In general, the CCU has failed to enforce proper controls over the commissary operations. CCU does not enforce the commissaries’ compliance with DOC inventory procedures and reporting requirements. CCU also lacks adequate procedures to ensure that documentation submitted by the commissaries is complete and accurate. For example, condemnation forms did not always have the required approval signatures and many quarterly physical inventory report packages lacked required documentation or complete information.

Audit Recommendations

To address these issues, the audit made nine recommendations. Some of the major recommendations were that DOC officials should:

- Ensure that all discrepancies in the inventory be properly investigated. The findings of the investigation must be documented in writing and reported to the appropriate management level, as required.
- Ensure that commissary personnel follow the DOC Inventory Control Policy and Procedures Manual when conducting inventory counts. Commissary personnel should not conduct inventory counts.
- Enforce the procedures that require commissaries to notify the CCU prior to conducting interim periodic inventory counts. All subsequent adjustments to IFCOM should be approved and authorized.
- Ensure that the condemnation procedures are followed prior to condemning and discarding any items in inventory. This would include prior approval from the CCU, examination of the condemned items by the appropriate personnel, and listing of each item on a Condemnation Request Form and Verification Form.
- Require the CCU to adequately monitor the commissaries and enforce their compliance with the DOC inventory procedures and reporting requirements; carefully review documents submitted by the commissaries for completeness and accuracy; and

request, where applicable, documentation that is missing and additional information when documentation is incomplete.

Department of Correction Response

The matters covered in this report were discussed with DOC officials during and at the conclusion of this audit. A preliminary draft report was sent to DOC officials and discussed at an exit conference held on June 8, 2004. On June 11, 2004, we submitted a draft report to DOC officials with a request for comments. We received a written response from the DOC Commissioner on June 25, 2004. The Commissioner generally agreed with the audit findings and indicated that DOC plans to implement all nine recommendations.

The full text of the DOC response is included as an addendum to this report.

INTRODUCTION

Background

The New York City Department of Correction (DOC) provides for the daily care, custody, and control of between 14,000 and 19,000 inmates over the age of 16. Each year, approximately 120,000 inmates are admitted into DOC custody. These include detainees who have been arraigned but who are unable to post bail, those taken into custody without bail, and those awaiting trial on criminal charges. The DOC also incarcerates persons convicted and sentenced in the City to terms of up to one year, parole violators awaiting hearings, and persons charged with civil crimes. The DOC provides as well for the temporary custody of persons sentenced to prison terms of more than one year pending transfer to the New York State Department of Correctional Services (NYSDCS) and of NYSDCS prisoners awaiting court appearances in New York City.

The majority of inmates are housed on Rikers Island—the DOC primary base of operation—which has ten detention facilities capable of housing up to 17,000 inmates, a hospital ward, warehouses, commissaries, and other support units. The DOC also operates six borough facilities, 15 court detention facilities and four hospital prison wards.

The Central Commissary Unit (CCU) of the DOC Financial Services Division oversees the operation of 10 commissaries: eight on Rikers Island, one in Manhattan, and one in the Bronx. The commissaries offer various items for sale, such as toiletries, radios, batteries, food, snacks, and beverages.¹ All goods sold at the commissaries are ordered by the Commissary Operations Manager of the CCU. However, the DOC Central Office of Procurement is directly responsible for all department procurement activities.

This audit was commenced at the request of the Department of Correction.

Commissary Operations

Each commissary has a Commissary Manager who oversees day-to-day operations.² The staff consists of Commissary Officers (Correction Officers) and clerks (inmates approved for commissary work duty). The primary function of the Commissary Officers is to record in the Inmate Financial Commissary Management (IFCOM) computer system the purchases made by the inmates and other related transactions. The clerks keep the shelves stocked with the inventory items and remove from the shelves items inmates wish to purchase.

The commissaries are housed in detention facilities and operate from Monday through Friday. Inmates are allowed to shop at the commissary once a week, according to assigned schedules, and are limited to weekly purchases of up to \$100. Each day, groups of inmates are escorted by Correction Officers to make their purchases at the commissary. The inmates do not

¹ Cigarettes were one of the largest selling items at the commissaries until the sale of all tobacco products was banned, effective April 1, 2003.

² Each detention facility has a Business Manager who, among other things, is responsible for the supervision of the Commissary Manager and subordinate staff.

actually enter the area where goods are kept but conduct all business at the commissary window (as at a bank). The inmates hand in their identification (ID) cards and tell the commissary clerk which items they wish to purchase. The clerk collects the requested items in baskets, and then hands the collected items, along with the inmate's ID, to a Commissary Officer. The Officer records the purchases in IFCOM, which results in debits to the inmates' accounts, as there are no cash transactions. The inmates receive the items purchased, a receipt, and their ID. Each inmate has to sign a Commissary Sales Log that lists the inmate's ID number and the dollar amount of purchase. Inmates purchase approximately 400,000 items weekly.

Inmate Financial Commissary Management (IFCOM)

The DOC uses the IFCOM computer system, which is equipped with bar code scanners, to perform the accounting for inmate accounts. These accounts are charged for merchandise purchased by inmates and credited for funds put into the account by inmates' families and friends. IFCOM is also used in conjunction with the Automated Inmate Call Management System to track inmate telephone use and to charge those costs to the inmate accounts. Each entry or transaction entered in IFCOM can be traced through user identifications and reference numbers assigned automatically to each transaction.

IFCOM is also used to record commissary inventory activities. For example, IFCOM uses an online processing method that tracks inventory on hand, goods received, sales, transfers, and "condemnations" (inventory items that must be discarded); it also performs management-related tasks. At the end of each day, the Commissary Manager prints various inventory stock status and sales reports from IFCOM.

Inventory Operations

As previously stated, the Commissary Operations Manager of the CCU is responsible for ordering merchandise for all of the commissaries and keeping the commissaries stocked. There are 19 approved vendors that provide approximately 145 different types of items sold in the commissaries. Each day, the commissaries receive goods directly from vendors. The Commissary Managers keep track of merchandise inventory, accept deliveries of goods, enter deliveries in IFCOM, conduct inventory counts, and print and maintain daily and quarterly reports. If one commissary runs short of certain goods that are overstocked at another facility, the Commissary Operation Manager at CCU arranges for a transfer of goods from one commissary to another one.

According to DOC Directive #1501R, to ensure and maintain the integrity of the commissary inventory, a physical inventory of in-stock merchandise must be taken at least quarterly. In addition, a year-end inventory must be completed subsequent to the last commissary sale day of the fiscal year (June 30). Interim inventories may also be conducted. In all cases, the Commissary Manager must notify the CCU one day prior to conducting the physical inventory to enable a reconciliation of the physical inventory count and the IFCOM inventory records. The result of all physical inventory counts must be entered in IFCOM, which then generates a Physical Count Report. IFCOM compares the inventory levels reflected in the system against

the physical count entered in the system and identifies all variances.³ Each variance must be reported and investigated in accordance with established DOC procedures.

The Fiscal Year 2003 adopted DOC budget for commissary operations totaled \$13.1 million. For the same period, the DOC reported commissary revenues of approximately \$14.2 million, an increase of \$1.1 million over Fiscal Year 2002 reported revenue of \$13.1 million.

Objectives

The objective of this audit was to determine whether the DOC maintains adequate internal controls over commissary operations.

Scope and Methodology

The scope of the audit was Fiscal Years 2003 and 2004 through February 2004. This included an overall review of all 10 commissaries.

To achieve our objective and gain an understanding of DOC commissary operations, we interviewed officials from both the Central Office of Procurement and the Central Commissary Unit. We reviewed documents containing various policies and procedures established by DOC, including: DOC Directive #1501R, Commissary Operations; Directive 2305, Inventory Control Policy and Procedure Manual; and Central Office of Procurement Standard Operating Procedures. We also reviewed the IFCOM user manual to gain an understanding of the system's various functions, processes, and reporting capabilities.

To determine whether policies and procedures were being followed and to assess the internal controls over commissary operations, we visited all 10 DOC commissaries, conducted walkthroughs, and interviewed commissary personnel. We also conducted observations of commissary operations. Specifically, we observed the inmates being escorted into the commissary area, handing over their ID cards, and placing their orders with commissary personnel. We observed commissary clerks pulling the ordered merchandise from the inventory and the Commissary Officers entering the purchases in the IFCOM computer terminals and charging the inmates' accounts. We also saw that the goods were turned over to the inmates, along with their IDs and a printed receipt of their purchase.

To test for the commissaries' compliance with DOC inventory procedures, and to determine whether the on-hand inventory agreed with the IFCOM inventory records, we observed the quarterly physical inventory counts on December 31, 2003, at the George Motchan Detention Center (GMDC) and the Eric M. Taylor Center (EMTC) commissaries on Rikers Island. We judgmentally chose to conduct observations at these two commissaries since these commissaries had the highest inventory value (more than \$112,000 each) on December 15, 2003, as reported in the most current IFCOM reports we received. We accompanied DOC commissary personnel as they conducted the physical inventory count, and we verified their count of each

³ A variance is any difference (positive or negative) between the on-hand inventory reflected in the inventory control system (IFCOM) and the actual quantities in stock as determined by a physical inventory count.

item in inventory. Subsequently, we obtained all supporting documents relating to the inventory count.

To determine the appropriateness and accuracy of inventory variances, condemnations, transfers, and purchasing processes, we reviewed and analyzed relevant reports and supporting documentation for sample time periods closely preceding and following the December 31, 2003, quarterly physical inventory count. These sample periods and the specific audit tests to which they relate are discussed below.

To assess the nature, frequency, and impact of inventory adjustments, we analyzed the IFCOM Commissary Adjustment Reports for the period October 1, 2003, through December 31, 2003.

To assess whether quarterly inventory report packages submitted by the commissary to CCU were complete (i.e., contained all supporting documents and forms), properly executed, authorized, and submitted in a timely manner, we requested all 60 quarterly inventory report packages submitted by the commissaries to the CCU for Fiscal Year 2003 and the first two quarters of Fiscal Year 2004 (July 1, 2002 through December 31, 2003). We received and reviewed 58 of the requested reports.

To assess whether condemnations were appropriately handled, and whether required documentation was appropriately completed and authorized, we reviewed all Condemnation Requests and Verification Forms submitted by the commissaries to the CCU for the period July 1, 2003 through December 31, 2003.

The results of our audit tests, discussed above, while not projectable to their respective population(s) provided us a reasonable basis to assess the adequacy of DOC internal controls over commissary operations and compliance with DOC directives.

Our audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

Discussion of Audit Results

The matters covered in this report were discussed with DOC officials during and at the conclusion of this audit. A preliminary draft report was sent to DOC officials and discussed at an exit conference held on June 8, 2004. On June 11, 2004, we submitted a draft report to DOC officials with a request for comments. We received a written response from the DOC Commissioner on June 25, 2004. The Commissioner generally agreed with the audit findings and indicated that DOC plans to implement all nine recommendations. Nevertheless, he stated that the report had inaccurate and untrue statements regarding inventory discrepancies that we cited in the report.

Auditor Comment: The DOC response contained several contradictory points. For example, it disputed the accuracy of our reported gross discrepancy rates in *inventory item counts* because they differed with the net discrepancy rates in *inventory dollar values*—comparisons of different measures. Then the response later stated, “It is fair for the Comptroller to report the gross discrepancy rate for the reasons stated in the audit report. However, the net discrepancy . . . is more indicative of the loss as viewed by the public at large.” Although DOC may have legitimate concerns regarding public perception of its activities, this audit fairly and accurately reports on the adequacy of DOC internal controls over its commissary operations and has therefore met the audit objective. As discussed throughout this report, we found sufficient evidence to conclude that DOC has inadequate controls over its commissary operations. This is evidenced by the discrepancies between the numbers of items counted at two commissaries compared to the numbers of items in the associated inventory records. In fact, the quantities of *most* of the items in inventory were inaccurately recorded. Accordingly, this inventory system cannot be relied upon to provide an accurate and up-to-date accounting of the DOC commissary inventories.

In its response, DOC stated, “In the audit conference, the Comptroller’s staff agreed that the audit found relatively small discrepancies . . . mostly due to keying errors. . . . We ask the Comptroller’s staff to state this fact.” The response further stated, “It is surprising the Comptroller’s office—an office with the function of ensuring truth and accuracy in reporting—did not follow up on this recommendation.” It is disturbing that DOC would make such a statement. After the exit conference, we reviewed documentation (some of which was given to us after the exit conference) to substantiate DOC statements that the discrepancies were “relatively small” and mostly due to “keying errors.” We found, in fact, that although the dollar values of the discrepancies are not large compared to the total dollar values, the discrepancies in each category of items ranged from plus 2,235 to minus 6,928 (as noted in Tables I and II in the report). This, in our opinion, cannot be categorized as “relatively small.” To detail our audit results, we have attached Appendices II and III to this report, which list the entire results of the December 31, 2003, inventory counts for GMDC and EMTC commissaries as compared to the inventory records.

The full text of the DOC response is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

Our review of DOC commissary operations disclosed that the commissaries are providing the intended services to the inmates. The commissaries are stocked with goods that are approved for sale to the inmates, an up-to-date price list is posted in the commissary, and the turnaround time between the inmates' request for items and their receipt of those items is minimal. However, we determined that internal control weaknesses exist that raise serious questions about the adequacy of the commissaries' controls over inventory and their compliance with DOC inventory procedures. In addition, it appears that the CCU's oversight of the commissaries is inadequate. Specifically we noted the following:

- The results of the December 31, 2003, quarterly inventory count found that the GMDC and EMTC commissaries had gross discrepancies of 94 and 89 percent, respectively, between the amounts of inventory on hand and the amounts reported in the inventory records. (The figures reflect the percentage of the number of items that had discrepancies in relation to the total number of items.)
- The GMDC and EMTC commissaries' physical counts were conducted by personnel, who were actively involved in day-to-day commissary operations, even though DOC procedures prohibit the active participation of such personnel.
- Commissary Managers frequently conduct interim periodic inventory counts, adjust their inventories, and restate variances without notifying and obtaining approval from the CCU, as required.
- Commissaries frequently condemn and dispose of inventory items without proper approval and authorization.
- CCU does not enforce the commissaries' compliance with DOC inventory procedures and reporting requirements. CCU also lacks adequate procedures to ensure that documentation submitted by the commissaries is complete and accurate. For example, condemnation forms did not always have the required approval signatures and many quarterly physical inventory report packages lacked required documentation or complete information.

These deficiencies are discussed in greater detail in the following sections of this report.

Inaccurate Inventory Records

The Department of Correction had gross discrepancies of up to 94 percent between the amounts of inventory on hand and the amounts reported in its inventory records at two of its 10 commissaries. Because of inadequate controls over record-keeping, DOC lacks an accurate count of what is on hand at the commissaries, thereby increasing the risk that inventory may be misappropriated.

The true measure of a perpetual inventory system is the absolute error—or gross discrepancy—rate. Gross discrepancies indicate the accuracy of inventory records. The net discrepancy, while useful for valuation purposes, is practically meaningless for determining the accuracy of inventory record-keeping, as illustrated in the examples below.

	Actual Amount on Hand	Recorded Amount on Hand	Net Discrepancy	Gross Discrepancy
Item 1	\$500	\$1,000	(\$500)	\$500
Item 2	\$1,500	\$1,000	\$500	\$500
Total	\$2,000	\$2,000	\$0	\$1,000
Error rate			0%	50 %

On December 31, 2003, we accompanied DOC commissary personnel as they conducted the quarterly physical inventory counts at two commissaries—GMDC and EMTC. We verified their count of each item in inventory; in fact, both commissary managers signed off on the agreed-on inventory count results. We subsequently compared the count results to the inventory balances recorded in the IFCOM inventory records.

In GMDC, the inventory records in IFCOM showed 108 items in inventory with a total value of \$146,090, but the count revealed a gross discrepancy for 102 (94%) of these items. In EMTC, the inventory records showed 101 items in inventory with the total value of \$138,846, but our count revealed a gross discrepancy for 90 (89%) of these items. Tables I and II, below, summarize the shortages and the overages that we found as a result of the physical count at each commissary.

Table I

**Shortages and Overages Found in Actual Count of GMDC Commissary Inventory
And the Amounts and Dollar Values of the Discrepancies
Based on IFCOM Inventory Records which Showed 108 Items Valued at \$146,090**

Inventory	Shortages *		Overages **		Total	
	Number of Items / Percentage	Dollar Value / Percentage	Number of Items / Percentage	Dollar Value / Percentage	Number of Items / Percentage	Dollar Value / Percentage
(a) Discrepancies	80	\$7,110	22	\$1,387	102	\$8,497
(b) Percent of Discrepancies (a) from Total Items (108) and Dollar Value (\$146,090)	74%	5%	20%	1%	94%	6%

*In each category of items, discrepancies ranged from minus 1 to minus 3,083, with an average of minus 143 items.

** In each category of items, discrepancies ranged from plus 1 to plus 280, with an average of plus 46 items.

Table II

**Shortages and Overages Found in Actual Count of EMTC Commissary Inventory
And the Amounts and Dollar Values of the Discrepancies
Based on IFCOM Inventory Records which Showed 101 Items Valued at \$138,846**

Inventory	Shortages *		Overages **		Total	
	Number of Items / Percentage	Dollar Value / Percentage	Number of Items / Percentage	Dollar Value / Percentage	Number of Items / Percentage	Dollar Value / Percentage
(a) Discrepancies	64	\$4,630	26	\$2,361	90	\$6,991
(b) Percent of Discrepancies (a) from Total Items (101) and Dollar Value (\$138,846)	63%	3%	26%	2%	89%	5%

* In each category of items, discrepancies ranged from minus 1 to minus 6,928, with an average of minus 227 items.

** In each category of items, discrepancies ranged from plus 1 to plus 2,235, with an average of plus 160 items.

In the quarterly inventory report package ending December 2003, the EMTC Commissary Manager indicated that variances are generally caused by incorrect product codes entered at the time of sale, over-the-counter errors, pilferage by inmates assigned to the commissaries, and vendor overages and shortages. (However, documentation of these incidents is not maintained.) The GMDC quarterly inventory report package contained no documentation explaining inventory discrepancies.

It appears that the frequency of data entry errors could be reduced if the bar code scanners attached to the IFCOM terminals were used. According to the Commissary Operations Manager, although the scanners are operable, the Commissary Officers claim that using the scanners slows down the processing of sales; therefore, they prefer to enter the product codes manually in the IFCOM system.

However, DOC Directive #1501R states: "Bar codes are scannable by IFCOM and electronically informs IFCOM of the stock number. Physical inventory, merchandise receipts, and sales are to be accomplished by employing bar codes. Scanning of bar codes is the preferred method of entering item information into the IFCOM system." (Emphasis added.)

At the exit conference, the GMDC Commanding Officer (Warden) stated that the majority of the variances were caused by keying errors and therefore do not signify an actual loss. Moreover, the Commanding Officers present at the exit conference were not aware that the commissaries had bar code scanners. Again, we state that the use of the bar code scanners may

significantly reduce the keying errors, which the GMDC Commanding Officer contends is the major cause of variances.

Based on our test work and review, the IFCOM inventory records do not reflect an accurate and up-to-date accounting of the DOC commissaries' inventories. If 89 percent to 94 percent of the items in the inventory records show incorrect amounts and values, then the records cannot be used reliably as a basis for ordering adequate quantities of inventory; more important, theft or misappropriations may occur and go undetected.

DOC Response: Concerning inventory discrepancies, DOC stated, "The audit report's discussion of inventory discrepancies is misleading and does not put the discrepancies found in the proper context. Furthermore, the Comptroller's finding that the 'GMDC and EMTC commissaries had gross discrepancies of 94 and 89 percent, respectively, between the amounts of inventory on hand and the amounts reported in the inventory records' is untrue. In fact, the GMDC and EMTC commissaries had total (net) dollar value discrepancies of four and two percent, respectively, between the amounts of inventory on hand and the amounts reported in the inventory records. The percentages cited in the audit report represent the proportion of items that had any discrepancies at all, not the gross discrepancy as stated in the audit report. [Emphases in original.]

Auditor Comment: DOC fails to understand that the main purpose of maintaining a perpetual inventory system is to have an accurate and up-to-date accounting of inventory. Therefore, measuring the gross discrepancy in inventory provides the best indication of the accuracy and reliability of inventory records. As discussed in the report, the 94 and 89 percentages are the gross discrepancies (shortages and overages) found as a result of the December 31, 2003, quarterly inventory counts at the GMDC and EMTC commissaries. These percentages represent the number of items that had any discrepancies at all—shortages or overages. As shown in Table I, 102 (94%) of the 108 items counted in the GMDC commissary had discrepancies, and Table II shows that 90 (89%) of the 101 items counted in the EMTC commissary had discrepancies. This clearly indicates that the majority of items in inventory was not accurately accounted for and that the DOC commissary inventory records should therefore be considered unreliable. The net dollar value discrepancy, while useful for valuation purposes, is practically meaningless for determining the accuracy and reliability of inventory record-keeping. To detail our audit results, we have attached Appendices II and III to this report, which list the entire results of the December 31, 2003, inventory count for GMDC and EMTC commissaries as compared to the inventory records

DOC Response: Concerning the significance and cause of inventory discrepancies, DOC stated, "In the audit conference, the Comptroller's staff agreed that the audit found relatively small discrepancies in a high percentage of items and that this was probably mostly due to keying errors. We asked the Comptroller's staff to state this fact and to provide a more accurate and nuanced discussion of the discrepancies found so that a lay reader could gain better understanding of the situation."

Auditor Comment: The DOC statement is without merit. At the exit conference, DOC officials stated that “the audit found relatively small discrepancies in a high percentage of items and that this was probably due to keying errors.” We reviewed this issue and noted the results in the draft report. As can be seen in Tables I and II, the discrepancies were not “relatively” small, as claimed by DOC officials. Table I shows that for GMDC commissary, the discrepancies for the items counted ranged from minus 1 to minus 3,083, with an average of minus 143 items, and from plus 1 to plus 280, with an average of plus 46 items. Table II shows that for the EMTC commissary, the discrepancies for the items counted ranged from minus 1 to minus 6,928, with an average of minus 227 items, and from plus 1 to plus 2,235, with an average of plus 160 items. To show the item-by-item differences between the inventory records and the inventory count results of December 31, 2003, we have attached Appendices II and III to this report.

At the exit conference, the GMDC commissary commanding officer stated that most of the discrepancies found were due to keying errors. After the exit conference, DOC officials provided us with IFCOM reports indicating the cause of interim physical count adjustments made from October 1, 2003, through December 30, 2003, (this is discussed later in the report). No additional documentation was provided indicating the cause for the discrepancies found during the quarterly inventory counts conducted on December 31, 2003, and illustrated in Tables I and II. Nevertheless, in this report, we clearly state DOC officials’ claim that keying errors are the major cause of the discrepancies, which is why we recommend that DOC commissaries use the barcode scanners available in each commissary.

DOC Response: Concerning the accuracy of inventory records, DOC stated, “As discussed in the audit conference, a balanced look at the accuracy of inventory record keeping would include both the net and gross discrepancy rates. For example, if a commissary actually sold item 96, Diet Pepsi, for the sales price of \$1.40, but keyed in item 97, Pepsi, (also costing \$1.40), then this would lead to a gross discrepancy of two items and \$2.80. It is fair for the Comptroller to report the gross discrepancy rate for the reasons stated in the audit report. However, the net discrepancy of zero from this transaction is more indicative of the loss as viewed by the public at large.”

Auditor Comment: For assessing the accuracy of inventory records, the gross discrepancy method has to be used. Using the net discrepancy approach would not accurately reflect the actual inventory on hand and could result in zero discrepancy when in fact there are overages and shortages.

However, we are well aware that the net dollar value of discrepancies is important for valuation purposes and is a factor in determining when an investigation by the DOC Office of the Inspector General should be conducted. This is evident in the DOC requirement that “each and every inventory dollar variance (positive and negative)” must be investigated and that a net loss of \$600 or more requires the commissary to submit an Unusual Incident Report with its quarterly inventory package. As reported in the audit, the net dollar discrepancies for the GMDC and EMTC commissary inventories on December 31, 2003, were \$5,723 and \$2,269 respectively, four and two percent of the

total dollar value of their inventories. Although these dollar amounts may be relatively small, DOC requires that a loss of much less—\$600—be investigated and reported. Moreover, given the lack of DOC controls over commissary operations, our concern is that over time, these discrepancies could result in greater losses. Specifically, as discussed throughout this report, DOC’s lack of controls include: the commissaries’ unauthorized adjustments to reduce reported discrepancies, the lack of evidence that discrepancies are investigated, the unauthorized condemnation of goods, and the inadequate monitoring of the commissaries by the CCU. DOC should be aware that a weak control environment can allow theft and misappropriation to occur and go undetected.

Noncompliance with Inventory Procedures

The quarterly physical inventory counts conducted on December 31, 2003 at the GMDC and EMTC commissaries were not conducted in compliance with DOC inventory procedures. Specifically, personnel independent of daily commissary operations did not perform the physical counts. Further, the Commissary Managers conducted recounts of certain inventory items and made adjustments to the December 31, 2003, inventory count results. Moreover, in addition to the required quarterly physical inventory counts, Commissary Managers frequently conduct interim periodic inventory counts of certain items without notifying the CCU and without reporting resulting variances to appropriate parties as required.

Physical Inventory Conducted by Commissary Personnel

Section 1.4.2 of the DOC Inventory Policies and Procedure Manual states that “the actual physical counting of inventory MUST be performed by personnel independent of daily storehouse and inventory operations.” (Emphasis in original.) It also states that “storehouse personnel may assist in the physical inventory counting process for identification purposes only.”

The December 31, 2003, quarterly physical inventory counts at the GMDC and EMTC commissaries were conducted by personnel who were actively involved in the day-to-day commissary operations; they were not paired with non-commissary personnel, as required. At the GMDC Commissary, the Commissary Manager and the Commissary Officer conducted the physical inventory count. At the EMTC commissary, the Business Manager and the Commissary Manager conducted the physical count.

The Commissary Officers are involved in daily operations, and the Business Manager oversees the Commissary Manager, who is responsible for the day-to-day operation of the commissary. Therefore, none of these individuals is independent of commissary operations.

The purpose of having an independent person participate in the physical inventory count is to ensure the integrity of the count. When persons involved in daily commissary operations conduct the inventory count, the integrity of the count results can be questioned.

**Recounts and Adjustments to the Quarterly Physical
Inventory Counts at the EMTC and GMDC Commissaries**

Subsequent to the December 31, 2003, physical inventory counts at the EMTC and GMDC commissaries, which we observed and verified, the EMTC and GMDC Commissary Managers conducted recounts of certain items. The recounts resulted in adjustments to the quarterly inventory count and a reduction of the existing inventory variances.

The DOC Inventory Control Policy and Procedure Manual, §1.4.7.3, requires that all variances between the actual inventory count and the IFCOM inventory records that are discovered during a physical inventory count must be recorded, investigated, and reported to the facilities Commanding Officers. For variances that result in a net loss of \$600 or more, the commissaries are required to submit an Unusual Incident Report to the CCU. If there is no reasonable explanation for any variances, they must be reported to the Inspector General’s Office.

Both Commissary Managers had agreed with us that the initial December quarterly inventory count was accurate. Nevertheless, both Commissary Managers subsequently recounted certain items on January 2, 2004 and changed the agreed-upon inventory figures before entering the information in the IFCOM system. We determined that 48 items were recounted at EMTC commissary and nine items were recounted at GMDC commissary. These recount results were entered in IFCOM in place of the December 31 count results.

The variances shown in IFCOM after the EMTC and GMDC inventory recounts were much smaller than the variances in IFCOM following the December 31, 2003, physical inventory count, as shown in Table III.

Table III

**Restatement of Inventory Values and Variances Based on Inventory Counts
And Recounts at the EMTC and GMDC Commissaries**

Calculations	EMTC Commissary	GMDC Commissary
I. Initial Variance		
(a) Value of Inventory per IFCOM (prior to physical count)	\$138,846	\$146,090
(b) Less: Value of Inventory based on December 31, 2003 count	136,577	140,367
(c) Net Variance (a-b)	\$(2,269)	\$(5,723)
II. Amended Variance		
(d) Value of Inventory in IFCOM (prior to physical count)	\$138,846	\$146,090
(e) Less: Value of Inventory based on <u>Recount</u>	138,413	142,874
(f) Adjusted Net Variance (d-e)	\$(433)	\$(3,216)
(g) Difference Between Variance (c - f)	\$(1,836)	\$(2,507)

As reflected in Table III, the effects of the inventory recounts at both the GMDC and EMTC commissaries significantly reduced, in absolute terms, the net variance reported by each commissary. The EMTC commissary's net variance was reduced by 81 percent, from \$2,269 to \$433. The GMDC commissary's net variance was reduced by nearly 44 percent, from \$5,723 to \$3,216.

In addition, DOC Directive #1501R requires that every "retail inventory dollar variance" must be investigated and reported. In Table III, we valued the inventory variances at retail. However, both commissaries reported their variances at cost, which would again lower the total net variance. In fact, for the quarter ending September 30, 2003, six commissaries reported variances, and four of those reported their variances at cost instead of retail.

These issues raise questions about the adequacy of the commissaries' controls over inventory and their compliance with DOC inventory procedures. First, the recounts are disconcerting since we observed the December 31, 2003, inventory counts at the EMTC and GMDC commissaries and, along with the Commissary Managers and Business Manager, verified the counts. Second, by recounting certain items, EMTC lowered its net loss from \$2,269 to \$433, below the \$600 that would require an Unusual Incident Report to be submitted to CCU. Third, despite a recount of certain items, GMDC had a net loss of \$3,216; however, the commissary still did not submit an Unusual Incident Report to the CCU as required.

Commissaries' Unreported and Unmonitored Periodic Inventory Counts and Adjustments

Commissary Managers frequently conduct interim periodic inventory counts of certain items without notifying the CCU and without reporting resulting variances to appropriate parties as required. In fact, the GMDC Commissary Manager stated that all of the commissaries conducted periodic physical counts to lower variances. Unlike the quarterly physical inventory counts, which is a count of all items in inventory and requires submission of various inventory and variance reports to the CCU, there is no such requirement when these periodic counts are conducted.

DOC Directive #1501R requires that the commissaries notify the CCU at least one day prior to conducting a physical inventory count. It also requires that "each and every (unit price) inventory dollar variance (positive or negative) must be investigated by the facility. The findings of the investigation must be in writing" and, as shown in Table IV, must be reported to appropriate parties within one hour of discovery, based on established notification criteria.

Table IV

Inventory Variance Notification Requirements

Retail (Unit Price) Inventory Dollar Variance	Notification Required to:
\$0.01 to \$99.99	Facility's Commanding Officer
\$100.00 to \$599.99	Facility's Commanding Officer and Executive Director for Financial Services.
\$600.00 and more	Facility's Commanding, Executive Director for Financial Services, Office of the Inspector General & Communication Control Center

We received from the CCU a complete list of all adjustments made by all 10 commissaries from October 1, 2003 to December 31, 2003. Our examination of the periodic inventory adjustments from October 1, 2003 to December 30, 2003, disclosed that 398 adjustments were made to IFCOM inventory records because of discrepancies between physical inventory counts and the IFCOM inventory records of certain items.⁴ (We did not include the adjustments resulting from the December 31, 2003, quarterly inventory count.)

We evaluated inventory adjustments and related variances of \$100 or more per item that resulted solely from physical count discrepancies (when compared to IFCOM records) to determine whether the commissaries complied with the notification requirements. Table V, lists the commissaries and the number of physical count adjustments made.

⁴ During this time period, there were 1,121 additional adjustments to the inventory records due to condemnation and transfers of items.

Table V

**Periodic Physical Inventory Count Adjustments Made
Between October 1, 2003, and December 30, 2003,
Resulting in Variances Valued at \$100 or More Per Item**

Commissary	Total Number of Adjustments	Variances between \$100 and \$599.99		Variances of \$600 and Over	
		Number of Adjustments	Average Variance Adjustment Amount Per Item (in Absolute Terms)	Number of Adjustments	Average Variance Adjustment Amount Per Item (in Absolute Terms)
AMKC	0	0	N/A	0	N/A
ARDC	91	20	\$300.00	5	\$992.00
CIFM/EMTC	76	3	\$328.00	2	\$1,921.00
GMDC	103	8	\$242.00	1	\$994.00
GRVC	5	4	\$200.00	1	\$810.00
MDC/BBKC	90	4	\$206.00	2	\$735.00
MTF3/VCBC	0	0	N/A	0	N/A
NIC	19	2	\$151.00	0	N/A
OBCC	9	5	\$256.00	1	\$1,077.00
RMSC	5	3	\$312.00	0	N/A
Totals Adjustments	398	49		12	

Of the 398 physical count adjustments, eight of the 10 commissaries made 49 adjustments resulting in variances of \$100 to \$599.99 per item; six of the 10 commissaries made 12 adjustments resulting in variances of \$600 or more per item. The remaining 337 inventory adjustments (not broken down in the Table V) were all less than \$100 per item. For the 61 adjustments resulting in variances in excess of \$100 per item, the commissaries failed to notify the appropriate individuals about the physical inventory counts and the resulting variances between the physical count and the IFCOM records.

At the exit conference, the GMDC Commanding Officer stated that if the variances, regardless of the amount, can be explained by commissary personnel, he does not report them as required. This appears to be contrary to DOC Directive #1501R, which states that each and every inventory dollar variance must be investigated and findings reported in writing to the appropriate parties. As stated previously, this Commanding Officer said that the bulk of the variances are due to keying errors in IFCOM. Our review of documentation provided to us after the exit conference indicated that the keying errors made by the GMDC staff are excessive when compared to those of other commissaries. Of the eight commissaries that had physical count adjustments for the period October 1, 2003 to December 30, 2003, the number of keying errors ranged from three to 62, with GMDC showing 62, the largest number of keying errors. Therefore, rather than accepting the large numbers of keying errors as a reasonable explanation for the variances, an attempt should be made to minimize these errors by requiring commissary personnel to use the bar code scanner. Nevertheless, whatever the reason for the variances, the

directive clearly states that all variances—both positive and negative—must be investigated and the findings reported in writing to the appropriate parties.

Commissary Managers and Business Managers are able to adjust inventory figures whenever they deem it necessary. While the dollar value of periodic inventory adjustments may be considered negligible, over time the frequency of these adjustments may result in significant losses. Without ensuring that all inventory adjustments are properly communicated, approved, and investigated when necessary, a weak control environment is created in which theft and misappropriation of commissary merchandise can occur and go undetected.

Condemnation of Commissary Merchandise Without Proper Approval

The commissaries have condemned and disposed of large amounts of inventory items without proper approval and authorization. In 1,204 instances during the six-month period July 1, 2003, through December 31, 2003, the commissaries condemned and discarded multiple items (for a total quantity of 21,748 individual items with a total value of \$10,549), as reported in IFCOM. The condemned items included food products, such as packaged meat, crackers, and cookies; and nonperishable goods, such as shampoo, soap, and toothpaste.

DOC Directive #1501R, Part V §H, allows for the condemnation of commissary goods for “structural physical condition, shelf life expiration, comprised packaging integrity, insect or rodent damage, or extreme environmental conditions such as heat, cold, moisture, or humidity.” To ensure that merchandise condemnations are necessary and that related inventory adjustments are properly recorded and approved, the Directive outlines the steps that must be carried out by specified persons.

The Directive requires:

- The Deputy Warden for Administration, the Administrative Captain, or the Business Manager to examine the condemned merchandise and consult the CCU prior to authorizing a condemnation.
- The Commissary Manager and the Business Manager to sign the Condemnation Request Form.
- The Commissary Manager to record the condemned items in IFCOM.
- The Business Manager to perform a verification in IFCOM that removes the items from the on-hand inventory balance. These items are then to be listed separately as unapproved condemned items.
- The Business Manager to complete and sign the Verification Form and forward it to the CCU.

- The CCU to recognize and approve condemnations when it receives the Verification Form. The approved condemned items should then be removed from the system.

We reviewed all 99 Condemnation Request Forms and 61 Verification Forms prepared from July 1, 2003 through December 31, 2003, to determine whether all 1,204 instances reported on IFCOM as condemned had been approved and authorized for condemnation. We found that there were many condemned items reported in IFCOM but not listed on a Condemnation Request Form, as well as items listed on the Condemnation Request Forms that were not reported on IFCOM. Specifically, of the 1,204 instances reported in IFCOM, 291 (24%) instances were not listed on the Condemnation Request Forms. Also, there were 105 additional instances listed on the Condemnation Request Forms not reported on IFCOM. Moreover, the 61 Verification Forms listed only 497 instances. No Verification Forms were prepared and submitted to the CCU for the remaining 707 (59%) instances reported in IFCOM.

In addition, 22 of 99 Condemnation Requests Forms submitted to the CCU lacked the required authorization signatures (10 lacked the Commissary Manager's signature, and 12 lacked the Business Manager's signature). More important, 53 of 61 Verification Forms submitted to the CCU lacked the verification signature of the Business Manager.

We asked CCU officials for an explanation or additional documentation for all the various differences. However, to date, they have not responded. It appears that there are no controls over the condemnation and disposal of commissary goods. Although DOC has procedures for condemning commissary items, it has failed to enforce these procedures. These procedures were established to ensure that appropriate officials first agree that the item(s) should be condemned and then finally verify and sign the appropriate forms so that the condemned items are permanently removed from the inventory records. By failing to enforce these procedures, there is no assurance that all condemnations are justifiable and appropriate since they are not properly approved and authorized.

There is a further concern regarding condemnations. Although not a requirement in DOC Directives, most of the Commissary Managers stated that they send condemned or expired goods to vendors for credit or exchange. In addition, both the Commissary Operations Manager of the CCU and the Deputy Executive Director of Financial Services stated that expired goods are returned to the vendors for credit or exchange. However, CCU was not able to provide documentation indicating that credits or exchanges actually occur. Moreover, the number of items that are condemned and discarded regularly by all the commissaries suggests that exchanges or credits may not in fact occur.

DOC should strengthen its condemnation procedures and ensure that the procedures are enforced. In addition, DOC should have a written policy that condemned goods, to the extent possible, be returned to the vendors for credit or exchange.

Inadequate Monitoring of the Commissary Operation

The CCU has failed to enforce proper controls over the commissary operations. We found many deficiencies in the CCU monitoring process. CCU has not enforced the

commissaries' compliance with DOC inventory procedures and reporting requirements. Further, the CCU has not requested, where applicable, documentation that is missing or requested additional information when documentation is incomplete. As a result, DOC is unable to ensure that waste and mismanagement in its commissaries are minimized and that inventory is effectively protected.

According to DOC Directive #1501R, the CCU has the responsibility to monitor and ensure that an adequate supply of inventory is maintained for all the commissaries. However, we found that CCU is not adequately monitoring the commissaries. As discussed throughout this report, the commissaries conducted periodic inventory counts and made frequent inventory adjustments without notifying the CCU; commissaries did not report variances when required; and inventory condemnations were not always properly approved and authorized. Moreover, although the commissaries submitted the quarterly inventory packages, the CCU did not properly review them.

After the commissaries perform a quarterly physical inventory count, each commissary is required to submit a package of inventory-related reports to the CCU. The Physical Inventory Submission Checklist lists the various inventory-related reports: Pre-physical Inventory Stock Status Report, Physical Inventory Worksheets, Physical Count Report, Post-Physical Inventory Stock Status Report, and Unusual Incident Report (when required). Each of these reports must be signed by the Warden of the respective facility. Along with each package, a cover memo from the Warden of the facility must be included detailing any problems and explanations of inventory discrepancies.

We requested all 60 quarterly inventory packages for Fiscal Year 2003 and the first two quarters of Fiscal Year 2004 that were submitted by the commissaries to the CCU to determine whether required documents were signed and the packages were complete and had indications that they were reviewed for accuracy. The CCU provided us with only 58 of the 60 packages.

Of the 58 quarterly physical inventory packages we reviewed, seven (12%) lacked the complete set of required documents and 33 (57%) did not have all the required signatures. We further analyzed those packages that contained the Pre-Physical Inventory Stock Status Reports and the Post-Physical Inventory Stock Status Reports, and calculated the inventory variances to determine (1) whether the variance was greater than a \$600 net loss, which would then require that an Unusual Incident Report be included in the package, and (2) whether the inventory variance amount matched the amount reported in the Warden's cover memo.

Of the 58 packages:

- 4 packages did not contain the reports needed to determine the variance.
- 7 packages had variances that were greater than a net loss of \$600. However, no Unusual Incident Reports were included in these packages.

- 8 packages did not contain a Warden’s cover memo indicating the inventory variance. For the remaining 46 packages, 34 (74%) packages had variances that did not match the variance reported in the Warden’s memo.

In addition, no commissary provided a reasonable explanation for discrepancies between the physical inventory count and the IFCOM inventory records. For example, the EMTC provided a list of reasons for inventory discrepancies, such as incorrect product code entries and pilferage; however, it provided no details of actual occurrences of these events. On the other hand, the GMDC package contained no documentation explaining inventory discrepancies.

Of greater concern, the Wardens (Commanding Officers) approved 46 of the 58 quarterly packages submitted to the CCU, attesting to their accuracy, but 74 percent of the packages had a difference between the variance reported in the Warden’s cover memo and the actual variance between the Pre-Physical Inventory Stock Status Report and the Post-Physical Inventory Stock Status Report, which were included in the package.

A proper review of these quarterly inventory packages would have clearly indicated that the commissaries are submitting inaccurate and incomplete documents. The CCU has failed to monitor the commissaries as required, even though it has the means to do so. Because of this lack of proper monitoring, DOC cannot be assured that it can prevent or even detect errors, misstatements, or misappropriations of inventory goods.

Recommendations

DOC officials should:

1. Require the use of IFCOM bar code scanners when the commissary staff process inmate sales, enter received goods, and conduct physical inventory counts so as to minimize data entry errors and to provide a more accurate accounting of sales and inventory.

DOC Response: “We acknowledge that keying errors compromise our perpetual inventory system. The use of scanners by commissary staff when processing inmate sales, entering received goods, and conducting inventory counts would greatly reduce the instances of keying errors. The current scanners used in DOC commissaries are not detachable hand-held scanners as would be necessary for use in conducting physical inventory counts or in the receipt of goods. The Department will research additional types of scanners currently on the market including hand-held scanners that could be used in this type of operation. DOC will also require use of the existing scanners by commissary personnel involved with the sale of commissary products. To address concerns that the existing scanners slow down the processing of sales, the Department will research whether another type of scanner would be more effective.”

2. Ensure that all discrepancies in the inventory be properly investigated. The findings of the investigation must be documented in writing and reported to the appropriate management level, as required.

DOC Response: “The Department will ensure that all inventory discrepancies are fully documented. In addition, the Department has developed a list of acceptable adjustment reasons that will be implemented in the IFCOM system effective July 1, 2004. The Department will also update Directive 1501R, Commissary Procedures, to ensure that the circumstances, when an investigation is required, are clear. The directive will be updated by August 1, 2004.”

3. Ensure that commissary personnel follow the DOC Inventory Control Policy and Procedures Manual when conducting inventory counts. Commissary personnel should not conduct inventory counts.

DOC Response: “The Department will reiterate that all of the policies and procedures contained in the DOC Inventory Control Policy and Procedures Manual be strictly adhered to. Inventories counted by commissary personnel will be returned for non-compliance of the DOC Inventory Control Policy and Procedures Manual. All instances of non-compliance must be explained in detail by the head of the facility including a planned corrective action for future inventories conducted at the respective commissary.”

4. Enforce the procedures that require commissaries to notify the CCU prior to conducting interim periodic inventory counts. All subsequent adjustments to IFCOM should be approved and authorized.

DOC Response: “The Department will change the inventory process and require monthly physical inventories beginning July 1, 2004. The results of all inventories will be forwarded to the Central Commissary Unit (CCU) at Financial Services Division. Facility access to the IFCOM inventory adjustment screens also will be revoked, and the facilities will only be granted access after the CCU has reviewed the proposed adjustments. The CCU will monitor all proposed adjustments to ensure that discrepancies are investigated in accordance with the directive. This will prevent facilities from conducting interim inventory counts without the proper notifications.”

5. Institute procedures requiring that at the beginning of the condemnation process, the commissaries obtain written authorization from CCU to condemn goods. This authorization should include direction from the CCU on how the goods are to be disposed.

DOC Response: “The CCU will institute procedures by July 1, 2004, which will revoke facility access to all adjustment screens. The CCU will grant access on an as needed basis and will only grant access after reviewing and ensuring that all of the paperwork has been completed and submitted. This will prevent the facilities from condemning goods without proper authorization. Upon granting adjustment screen access, the CCU will notify the facility of the proper disposal of any condemned items.”

6. Ensure that the condemnation procedures are followed prior to condemning and discarding any items in inventory. This would include prior approval from the CCU,

examination of the condemned items by the appropriate personnel, and listing of each item on a Condemnation Request Form and Verification Form.

DOC Response: “The CCU will revoke facility access to all adjustment screens. This action will ensure that the Central Commissary Unit approves all inventories and adjustments. This will enable the department to enforce existing policies and procedures.”

7. Institute a written policy that would require the commissaries to return condemned and expired items, to the extent possible, to the vendors for credit or exchange.

DOC Response: “In general, goods that can be returned to the vendor for credit or exchange are indeed returned to the vendor for credit or exchange. In most instances in the past, vendors provided exchange in merchandise, and no entries were made in IFCOM (as the exchanges were inventory neutral). The Department will implement a written policy effective August 1, 2004 requiring that exchanges and/or returns for credit are recorded in IFCOM to ensure proper accounting.”

8. Require the CCU to adequately monitor the commissaries and enforce their compliance with the DOC inventory procedures and reporting requirements; carefully review documents submitted by the commissaries for completeness and accuracy; and request, where applicable, documentation that is missing and additional information when documentation is incomplete.

DOC Response: “In general, CCU does adequately monitor the facilities and enforce compliance with the DOC inventory procedures. . . .With the standardized list of acceptable adjustment reasons and CCU control over all adjustment screens, the amended procedure will provide appropriate inventory control. The CCU will continue to review all submissions for accuracy and completeness and will request additional information when necessary. In fact, since the time of the audit, DOC has provided additional staff resources to the CCU to improve the quality and thoroughness of its review.”

9. Require the CCU to conduct periodic reviews of the commissaries’ inventory practices.

DOC Response: “The Department will now require that all facilities perform monthly instead of quarterly physical inventories. In addition, the CCU will conduct regular reviews to ensure compliance with all directives.”

LIST OF ITEMS SOLD AT THE COMMISSARIES
(As of March 12, 2004)

# OF ITEMS	ITEM DESCRIPTION	SALES PRICE
1	STAMP-\$.03	\$0.03
2	SUGAR IN THE RAW	\$0.03
3	SWEET N LOW	\$0.03
4	MAYO-WINSTON	\$0.04
5	COFFEE CREAMER	\$0.07
6	PLAIN ENVELOPE	\$0.08
7	\$.21 US STAMP	\$0.21
8	POSTCARD	\$0.22
9	RAMEN SOUP	\$0.26
10	POTATO STIX	\$0.27
11	LAY'S SOUR CREAM	\$0.29
12	BEEFSTICK	\$0.29
13	HUDSON HOT CHOCOLATE	\$0.30
14	BATTERY-AA ALKALINE	\$0.31
15	PEN-BLUE INK	\$0.32
16	DORITOS NACHO CHEESE	\$0.32
17	DORITOS COOL RANCH	\$0.32
18	SUN CHIPS	\$0.32
19	WISE BRAVO NACHO	\$0.32
20	CHIPS PLAIN LAYS	\$0.32
21	LAYS BBQ	\$0.32
22	LAYS SALT & VINEGAR	\$0.32
23	RUFFLES	\$0.32
24	STAMP	\$0.34
25	OREO	\$0.35
26	\$.37 US STAMP	\$0.37
27	MOTHER'S DAY CARD	\$0.44
28	PEANUTS-SALTED, PLANT	\$0.44
29	\$.37 STAMP ENVELOPE	\$0.45
30	PORK RINDS	\$0.48
31	IRISH SPRING	\$0.48
32	SNYDER'S POPCORN	\$0.50
33	POTATO CHIPS U/M	\$0.50
34	M & M PLAIN	\$0.53
35	M & M PEANUTS	\$0.53
36	SNICKERS	\$0.53
37	SOAP-DIAL	\$0.54
38	APPLE/CHERRY PIES	\$0.55
39	HONEY BUNS	\$0.55
40	MAXWELL FR. DR. COFFEE	\$0.55
41	HALLS CHERRY	\$0.57
42	HALLS HONEY-LEMON	\$0.57
43	MINI-POWDERED DONUTS	\$0.57

LIST OF ITEMS SOLD AT THE COMMISSARIES
(As of March 12, 2004)

# OF ITEMS	ITEM DESCRIPTION	SALES PRICE
44	POP TARTS	\$0.57
45	JAX	\$0.58
46	TANG	\$0.58
47	HUDSON COFFEE	\$0.59
48	STRAWBERRY DANISH	\$0.60
49	TASTYKAKE POUNDCAKE	\$0.62
50	GRINCH GREETING CARD	\$0.63
51	SLIPPERS-SHOWER	\$0.64
52	PICKLE	\$0.65
53	KOSHER SALAMI	\$0.66
54	TANG	\$0.67
55	KOSHER SMOKED TURKEY	\$0.67
56	KOSHER TURKEY ROLL	\$0.67
57	HERITAGE SOAP	\$0.67
58	SOAP-TONE	\$0.70
59	JOLLY RANCHER CANDY	\$0.74
60	POLAND SPRING WATER	\$0.75
61	QUAKER BROWN SUGAR	\$0.75
62	QUAKER CINN. RAISIN	\$0.75
63	QUAKER APPLE & SPICE	\$0.75
64	BEEF & GRAVY	\$0.76
65	LASAGNA	\$0.76
66	SUNFLOWER SEEDS	\$0.80
67	LEMON POUND CAKE	\$0.80
68	ALL BUTTER LB. CAKE	\$0.82
69	KITCHEN CUPCAKES	\$0.82
70	SARDINES	\$0.85
71	FROOT LOOPS	\$0.85
72	CORN POPS	\$0.85
73	FROSTED FLAKES	\$0.85
74	WRITNG TABLET	\$0.90
75	SLOPPY JOE	\$0.90
76	FISH STEAKS	\$0.90
77	TOOTHPASTE-AIM	\$0.93
78	RICE	\$0.96
79	MACKEREL	\$1.12
80	TUNA	\$1.18
81	DOVE	\$1.21
82	CRAWFORD CLEAR ROLL ON	\$1.28
83	SALMON FLAKES	\$1.31
84	HUNAN CHICKEN	\$1.35
85	AIM TOOTHPASTE 4 OZ	\$1.35
86	KOOL AID TROPICAL PUNCH 6 oz	\$1.38

LIST OF ITEMS SOLD AT THE COMMISSARIES
 (As of March 12, 2004)

# OF ITEMS	ITEM DESCRIPTION	SALES PRICE
87	KOOL AID CHERRY 6 oz	\$1.38
88	KOOL AID GRAPE 6 oz	\$1.38
89	COUNTRY TIME LEMONADE	\$1.38
90	CLEAR TANG	\$1.38
91	BEEF STEW	\$1.39
92	SODA-COKE	\$1.40
93	SODA-SPRITE	\$1.40
94	DIET COCA-COLA	\$1.40
95	SODA-MM ORANGE	\$1.40
96	DIET PEPSI	\$1.40
97	SODA-PEPSI	\$1.40
98	FRESCA	\$1.40
99	SIERRA MIST	\$1.40
100	CHICKEN W/GRAVY	\$1.41
101	SHARP CHEESE	\$1.41
102	FEMINQUE DOUCHE	\$1.41
103	ORANGE-SLICE	\$1.43
104	POWERADE MTN. BLAST	\$1.43
105	POWERADE FRUIT PUNCH	\$1.43
106	VANILLA WAFERS	\$1.47
107	HI-HO	\$1.47
108	ICED OATMEAL	\$1.47
109	SUAVE STRAWBERRY	\$1.52
110	EARPHONES-SUN	\$1.55
111	CRABMEAT	\$1.74
112	SPANISH WORD FIND PUZZLE BOOKS	\$1.78
113	BUTTERSCOTCH	\$1.82
114	LEMON DROPS	\$1.82
115	SOCKS	\$1.83
116	SHRIMP	\$1.87
117	EFFERDENT	\$1.90
118	SKIPPY PEANUT BUTTER	\$1.95
119	ROLLS-ARNOLD'S POTATO	\$1.99
120	ENGLISH WORD FIND PUZZLE BOOKS	\$2.00
121	KEEBLER SOFT BATCH	\$2.08
122	PLAYING CARDS	\$2.10
123	CHEEZ-IT	\$2.21
124	CLAMS	\$2.25
125	OYSTERS	\$2.25
126	DOVE DEO BODY FRESHNER	\$2.37
127	VIENNA FINGERS	\$2.39
128	COUNTRY STY. OATMEAL	\$2.39
129	SHAMPOO BABY	\$2.45

LIST OF ITEMS SOLD AT THE COMMISSARIES
(As of March 12, 2004)

# OF ITEMS	ITEM DESCRIPTION	SALES PRICE
130	CHIPS DELUXE	\$2.61
131	CERTAINDRI ANTIPER.	\$2.70
132	HYDROX	\$2.71
133	LIPTON TEA VARIETY	\$2.74
134	TOWN HOUSE CRACKER	\$2.78
135	EFFERGRIP	\$2.81
136	OIL OF OLAY	\$2.84
137	LUBRIDERM 3.3 OZ	\$2.96
138	FIG BAR	\$3.08
139	PRIORITY MAIL	\$3.50
140	ALWAYS MAXI PADS/WINGS	\$3.59
141	OREO COOKIE	\$3.85
142	NAIR	\$4.05
143	BAN CLEAR ROLL-ON	\$4.40
144	GPX A2096 (Radio)	\$13.98
145	SONY AM/FM STEREO RADIO	\$23.74

GMDC DECEMBER 31, 2003 INVENTORY COUNT RESULTS

A Item Description	B Sale Price	C 12/31/03 Pre-Count Inventory as per IFCOM Records	D Pre-Count Inventory Value (Col. B*C) [rounded]	E 12/31/03 Auditors Count	Actual Shortages and Overages and Dollar Value of Discrepancies (Based on 12/31/03 count)			
					F Number of Shortage (Col. E-C)	G Dollar Value of Shortage (Col. B*F) [rounded]	H Number of Overage (Col. E-C)	I Dollar Value of Overage (Col. B*H) [rounded]
					HUDSON COFFEE	\$0.59	34945	\$20,618
KOSHER SMOKED TURKEY	\$0.67	832	\$557	0	-832	-\$557		
KOSHER SALAMI	\$0.66	705	\$465	0	-705	-\$465		
SUGAR IN THE RAW	\$0.03	47604	\$1,428	46948	-656	-\$20		
COFFEE CREAMER	\$0.07	8999	\$630	8399	-600	-\$42		
KOSHER TURKEY ROLL	\$0.67	584	\$391	0	-584	-\$391		
RAMEN SOUP	\$0.26	17091	\$4,444	16601	-490	-\$127		
MAYO-WINSTON	\$0.04	933	\$37	496	-437	-\$17		
M & M PEANUTS	\$0.53	4186	\$2,219	3822	-364	-\$193		
BEEFSTICK	\$0.29	21140	\$6,131	20881	-259	-\$75		
APPLE/CHERRY PIES	\$0.55	337	\$185	116	-221	-\$122		
SARDINES	\$0.85	467	\$397	253	-214	-\$182		
PEANUTS-SALTED, PLANT	\$0.44	2390	\$1,052	2189	-201	-\$88		
KITCHEN CUPCAKES	\$0.82	2111	\$1,731	1915	-196	-\$161		
HALLS HONEY-LEMON	\$0.57	225	\$128	37	-188	-\$107		
KOOL AID CHERRY 6 oz	\$1.38	447	\$617	268	-179	-\$247		
CHEEZ-IT	\$2.21	573	\$1,266	396	-177	-\$391		
POLAND SPRING WATER	\$0.75	409	\$307	232	-177	-\$133		
M & M PLAIN	\$0.53	952	\$505	822	-130	-\$69		
OYSTERS	\$2.25	114	\$257	16	-98	-\$221		
POTATO CHIPS U/M	\$0.50	131	\$66	34	-97	-\$49		
QUAKER APPLE & SPICE	\$0.75	761	\$571	669	-92	-\$69		
CLEAR TANG	\$1.38	1610	\$2,222	1524	-86	-\$119		
WISE BRAVO NACHO	\$0.32	2177	\$697	2093	-84	-\$27		
COUNTRY TIME LEMONADE	\$1.38	303	\$418	227	-76	-\$105		
ROLLS-ARNOLD'S POTATO	\$1.99	178	\$354	104	-74	-\$147		
ALL BUTTER LB. CAKE	\$0.82	949	\$778	884	-65	-\$53		
KOOL AID GRAPE 6 oz	\$1.38	243	\$335	182	-61	-\$84		
DORITOS NACHO CHEESE	\$0.32	4218	\$1,350	4160	-58	-\$19		
DORITOS COOL RANCH	\$0.32	462	\$148	408	-54	-\$17		
MINI-POWDERED DONUTS	\$0.60	52	\$31	0	-52	-\$31		
CLAMS	\$2.25	75	\$169	24	-51	-\$115		
JAX	\$0.58	303	\$176	253	-50	-\$29		
SODA-SPRITE	\$1.40	303	\$424	256	-47	-\$66		
POP TARTS	\$0.57	5670	\$3,232	5624	-46	-\$26		
SNICKERS	\$0.53	4025	\$2,133	3980	-45	-\$24		

GMDC DECEMBER 31, 2003 INVENTORY COUNT RESULTS

Item Description	Sale Price	12/31/03 Pre-Count Inventory as per IFCOM Records	Pre-Count Inventory Value (Col. B*C) [rounded]	12/31/03 Auditors Count	Actual Shortages and Overages and Dollar Value of Discrepancies (Based on 12/31/03 count)			
					Number of Shortage (Col. E-C)	Dollar Value of Shortage (Col. B*F) [rounded]	Number of Overage (Col. E-C)	Dollar Value of Overage (Col. B*H) [rounded]
SALMON FLAKES	\$1.31	285	\$373	240	-45	-\$59		
SLIPPERS-SHOWER	\$0.64	492	\$315	448	-44	-\$28		
SODA-MM ORANGE	\$1.40	42	\$59	0	-42	-\$59		
TASTYKAKE POUNDCAKE	\$0.62	438	\$272	400	-38	-\$24		
QUAKER BROWN SUGAR	\$0.75	176	\$132	141	-35	-\$26		
PORK RINDS	\$0.48	993	\$477	961	-32	-\$15		
BATTERY-AA ALKALINE	\$0.31	30240	\$9,374	30209	-31	-\$10		
OREO	\$0.35	2183	\$764	2155	-28	-\$10		
KEEBLER SOFT BATCH	\$2.08	1231	\$2,560	1204	-27	-\$56		
STRAWBERRY DANISH	\$0.60	358	\$215	334	-24	-\$14		
CORN POPS	\$0.85	968	\$823	944	-24	-\$20		
SOAP-TONE	\$0.70	2790	\$1,953	2769	-21	-\$15		
SOAP-DIAL	\$0.54	3177	\$1,716	3156	-21	-\$11		
RICE	\$0.96	3502	\$3,362	3483	-19	-\$18		
\$.37 US STAMP	\$0.37	5274	\$1,951	5257	-17	-\$6		
HONEY BUNS	\$0.55	16	\$9	0	-16	-\$9		
MACKEREL	\$1.12	1216	\$1,362	1200	-16	-\$18		
COUNTRY STY. OATMEAL	\$2.39	601	\$1,436	586	-15	-\$36		
HUNAN CHICKEN	\$1.35	128	\$173	113	-15	-\$20		
SLOPPY JOE	\$0.90	387	\$348	375	-12	-\$11		
SKIPPY PEANUT BUTTER	\$1.95	715	\$1,394	703	-12	-\$23		
CHIPS PLAIN LAYS	\$0.32	11	\$4	0	-11	-\$4		
SHARP CHEESE	\$1.41	57	\$80	46	-11	-\$16		
EFFERGRIP	\$2.81	232	\$652	222	-10	-\$28		
LEMON DROPS	\$1.82	390	\$710	381	-9	-\$16		
TOWN HOUSE CRACKER	\$2.78	371	\$1,031	362	-9	-\$25		
PICKLE	\$0.65	81	\$53	72	-9	-\$6		
VIENNA FINGERS	\$2.39	723	\$1,728	716	-7	-\$17		
GRINCH GREETING CARD	\$0.63	1340	\$844	1334	-6	-\$4		
FROSTED FLAKES	\$0.85	789	\$671	783	-6	-\$5		
POSTCARD	\$0.22	108	\$24	103	-5	-\$1		
POTATO STIX	\$0.27	7017	\$1,895	7012	-5	-\$1		
FISH STEAKS	\$0.90	909	\$818	904	-5	-\$5		
CRABMEAT	\$1.74	1276	\$2,220	1272	-4	-\$7		
WRITNG TABLES	\$0.90	1,879	\$1,691	1,876	-3	-\$3		
FIG BAR	\$3.08	278	\$856	275	-3	-\$9		
LIPTON TEA VARIETY	\$2.74	3	\$8	0	-3	-\$8		
GPX A2096 (radio)	\$13.98	4	\$56	2	-2	-\$28		
SUNFLOWER SEEDS	\$0.80	945	\$756	943	-2	-\$2		

GMDC DECEMBER 31, 2003 INVENTORY COUNT RESULTS

A Item Description	B Sale Price	C 12/31/03 Pre-Count Inventory as per IFCOM Records	D Pre-Count Inventory Value (Col. B*C) [rounded]	E 12/31/03 Auditors Count	Actual Shortages and Overages and Dollar Value of Discrepancies (Based on 12/31/03 count)			
					F Number of Shortage (Col. E-C)	G Dollar Value of Shortage (Col. B*F) [rounded]	H Number of Overage (Col. E-C)	I Dollar Value of Overage (Col. B*H) [rounded]
TANG	\$0.67	4802	\$3,217	4800	-2	-\$1		
SONY AM/FM STEREO RADIO	\$23.74	100	\$2,374	99	-1	-\$24		
CHICKEN W/GRAVY	\$1.41	1664	\$2,346	1663	-1	-\$1		
SHAMPOO BABY	\$2.45	683	\$1,673	682	-1	-\$2		
SUAVE STRAWBERRY	\$1.52	473	\$719	472	-1	-\$2		
BUTTERSCOTCH	\$1.82	656	\$1,194	657			1	\$2
TUNA	\$1.18	7062	\$8,333	7063			1	\$1
BEEF STEW	\$1.39	308	\$428	309			1	\$1
SWEET N LOW	\$0.03	9817	\$295	9820			3	\$0
STAMP-\$.03	\$0.03	5836	\$175	5840			4	\$0
\$.21 US STAMP	\$0.21	432	\$91	437			5	\$1
CHIPS DELUXE	\$2.61	249	\$650	254			5	\$13
OREO COOKIE	\$3.85	307	\$1,182	312			5	\$19
BEEF & GRAVY	\$0.76	198	\$150	203			5	\$4
\$.37 STAMP ENVELOPE	\$0.45	2101	\$945	2108			7	\$3
FROOT LOOPS	\$0.85	707	\$601	715			8	\$7
AIM TOOTHPASTE 4 OZ	\$1.35	1358	\$1,833	1369			11	\$15
MOTHER'S DAY CARD	\$0.44	306	\$135	318			12	\$5
LASAGNA	\$0.76	613	\$466	626			13	\$10
EFFERDENT	\$1.90	753	\$1,431	768			15	\$29
CERTAINDRIANTIPER.	\$2.70	1979	\$5,343	2002			23	\$62
PEN-BLUE INK	\$0.32	12040	\$3,853	12065			25	\$8
HUDSON HOT CHOCOLATE	\$0.30	9042	\$2,713	9155			113	\$34
HALLS CHERRY	\$0.57	1093	\$623	1210			117	\$67
DOVEDEOBODYFRESHN ER	\$2.37	515	\$1,221	642			127	\$301
SHRIMP	\$1.87	224	\$419	448			224	\$419
KOOL AID TROPICAL PUNCH 6 oz	\$1.38	440	\$607	720			280	\$386
SODA-COKE	\$1.40	256	\$358	256				
DIET COCA-COLA	\$1.40	64	\$90	64				
POWERADE MTN. BLAST	\$1.43	60	\$86	60				
POWERADE FRUIT PUNCH	\$1.43	60	\$86	60				
LUBRIDERM 3.3 OZ	\$2.96	838	\$2,480	838				
OIL OF OLAY	\$2.84	120	\$341	120				
TOTALS		108	\$146,090	108	80	-\$7,110	22	\$1,387

EMTC DECEMBER 31, 2003 INVENTORY COUNT RESULTS

A Item Description	B Sale Price	C 12/31/03 Pre-Count Inventory as per IFCOM Records	D Pre-Count Inventory Value (Col. B*C) [rounded]	E 12/31/03 Auditors Count	F Actual Shortages and Overages and Dollar Value of Discrepancies (Based on 12/31/03 Initial Count)				G Number of Overage (Col. E-C)	H Dollar Value of Overage (Col. B*H) [rounded]
					F Number of Shortage (Col. E-C)	F Dollar Value of Shortage (Col. B*F) [rounded]	G Number of Overage (Col. E-C)	H Dollar Value of Overage (Col. B*H) [rounded]		
SUGAR IN THE RAW	\$0.03	17,779	\$533	10,851	-6,928	-\$208				
MAYO-WINSTON	\$0.04	1,608	\$64	0	-1,608	-\$64				
COFFEE CREAMER	\$0.07	17,395	\$1,218	16,624	-771	-\$54				
DORITOS NACHO CHEESE	\$0.32	1,972	\$631	1,408	-564	-\$180				
OREO	\$0.35	5,635	\$1,972	5,073	-562	-\$197				
SWEET N LOW	\$0.03	7,121	\$214	6,750	-371	-\$11				
PEANUTS-SALTED, PLANT	\$0.44	5,639	\$2,481	5,323	-316	-\$139				
PEN-BLUE INK	\$0.32	10,265	\$3,285	9,993	-272	-\$87				
BEEF STEW	\$1.39	265	\$368	0	-265	-\$368				
KITCHEN CUPCAKES	\$0.82	1,389	\$1,139	1,174	-215	-\$176				
CLAMS	\$2.25	392	\$882	189	-203	-\$457				
SOAP-DIAL	\$0.54	2,207	\$1,192	2,004	-203	-\$110				
FROOT LOOPS	\$0.85	1453	\$1,235	1,280	-173	-\$147				
TUNA	\$1.18	2,012	\$2,374	1,857	-155	-\$183				
HALLS CHERRY	\$0.57	6,341	\$3,614	6,187	-154	-\$88				
RICE	\$0.96	2,984	\$2,865	2,838	-146	-\$140				
OYSTERS	\$2.25	658	\$1,481	519	-139	-\$313				
SKIPPY PEANUT BUTTER	\$1.95	960	\$1,872	823	-137	-\$267				
WISE BRAVO NACHO	\$0.32	1,187	\$380	1,064	-123	-\$39				
CRABMEAT	\$1.74	596	\$1,037	477	-119	-\$207				
BATTERY-AA ALKALINE	\$0.31	22,274	\$6,905	22,169	-105	-\$33				
POLAND SPRING WATER	\$0.75	584	\$438	492	-92	-\$69				
RAMEN SOUP	\$0.26	18,559	\$4,825	18,495	-64	-\$17				
HALLS HONEY-LEMON	\$0.57	53	\$30	0	-53	-\$30				
M & M PEANUTS	\$0.53	2,254	\$1,195	2,202	-52	-\$28				
SHARP CHEESE	\$1.41	284	\$400	234	-50	-\$71				
KOOL AID GRAPE 6 oz	\$1.38	217	\$299	168	-49	-\$68				
CHIPS DELUXE	\$2.61	166	\$433	117	-49	-\$128				
QUAKER CINN. RAISIN	\$0.75	445	\$334	396	-49	-\$37				
KOOL AID CHERRY 6 oz	\$1.38	369	\$509	323	-46	-\$63				
JAX	\$0.58	898	\$521	855	-43	-\$25				
POTATO CHIPS U/M	\$0.50	893	\$447	851	-42	-\$21				
OREO COOKIE	\$3.85	80	\$308	38	-42	-\$162				
POP TARTS	\$0.57	2,725	\$1,553	2,685	-40	-\$23				
PORK RINDS	\$0.48	155	\$74	120	-35	-\$17				
COUNTRY STY. OATMEAL	\$2.39	370	\$884	337	-33	-\$79				
FISH STEAKS	\$0.90	973	\$876	949	-24	-\$22				
WRITING PAPER 8 1/2 X 14	\$1.61	162	\$261	143	-19	-\$31				
VIENNA FINGERS	\$2.39	681	\$1,628	664	-17	-\$41				
BEEF & GRAVY	\$0.76	165	\$125	149	-16	-\$12				
TOWN HOUSE CRACKER	\$2.78	582	\$1,618	567	-15	-\$42				
CORN POPS	\$0.85	1,328	\$1,129	1,313	-15	-\$13				

EMTC DECEMBER 31, 2003 INVENTORY COUNT RESULTS

A Item Description	B Sale Price	C 12/31/03 Pre-Count Inventory as per IFCOM Records	D Pre-Count Inventory Value (Col. B*C) [rounded]	E 12/31/03 Auditors Count	Actual Shortages and Overages and Dollar Value of Discrepancies (Based on 12/31/03 Initial Count)			
					F Number of Shortage (Col. E-C)	G Dollar Value of Shortage (Col. B*F) [rounded]	H Number of Overage (Col. E-C)	I Dollar Value of Overage (Col. B*H) [rounded]
PLAYING CARDS	\$2.10	355	\$746	341	-14	-\$29		
COUNTRY TIME LEMONADE	\$1.38	364	\$502	351	-13	-\$18		
TASTYKAKE POUNDCAKE	\$0.62	255	\$158	243	-12	-\$7		
\$.37 US STAMP	\$0.37	2,104	\$778	2,093	-11	-\$4		
CLEAR TANG	\$1.38	1,569	\$2,165	1,559	-10	-\$14		
SODA-PEPSI	\$1.40	238	\$333	230	-8	-\$11		
M & M PLAIN	\$0.53	1,230	\$652	1,223	-7	-\$4		
SARDINES	\$0.85	549	\$467	542	-7	-\$6		
CHEEZ-IT	\$2.21	672	\$1,485	666	-6	-\$13		
POTATO STIX	\$0.27	8,640	\$2,333	8,634	-6	-\$2		
PICKLE	\$0.65	197	\$128	192	-5	-\$3		
ORANGE-SLICE	\$1.43	226	\$323	221	-5	-\$7		
CERTAIN DRI ANTIPERS.	\$2.70	1,355	\$3,659	1,350	-5	-\$14		
EFFERGRIP	\$2.81	199	\$559	195	-4	-\$11		
\$.21 US STAMP	\$0.21	216	\$45	213	-3	-\$1		
DORITOS COOL RANCH	\$0.32	3	\$1	0	-3	-\$1		
SODA-COKE	\$1.40	259	\$363	256	-3	-\$4		
LUBRIDERM 3.3 OZ	\$2.96	703	\$2,081	700	-3	-\$9		
SOAP-TONE	\$0.70	1,897	\$1,328	1,894	-3	-\$2		
SODA-SPRITE	\$1.40	292	\$409	290	-2	-\$3		
ALL BUTTER LB. CAKE	\$0.82	1,425	\$1,169	1,424	-1	-\$1		
DOVE DEO BODY FRESHNER	\$2.37	535	\$1,268	534	-1	-\$2		
GRINCH GREETING CARD	\$0.63	672	\$423	673			1	\$1
SUNFLOWER SEEDS	\$0.80	1,450	\$1,160	1,451			1	\$1
SUAVE STRAWBERRY	\$1.52	385	\$585	386			1	\$2
QUAKER BROWN SUGAR	\$0.75	84	\$63	85			1	\$1
CHICKEN W/GRAVY	\$1.41	810	\$1,142	812			2	\$3
DIET PEPSI	\$1.40	0	\$0	2			2	\$3
TOOTHPASTE-AIM	\$0.93	957	\$890	959			2	\$2
KOSHER SALAMI	\$0.66	23	\$15	26			3	\$2
SONY AM/FM STEREO RADIO	\$23.74	96	\$2,279	100			4	\$95
PLAIN ENVELOPE	\$0.08	0	\$0	4			4	\$0
EFFERDENT	\$1.90	518	\$984	522			4	\$8
SLIPPERS-SHOWER	\$0.64	619	\$396	624			5	\$3
KOSHER TURKEY ROLL	\$0.67	18	\$12	24			6	\$4
KOSHER SMOKED TURKEY	\$0.67	44	\$29	54			10	\$7
FROSTED FLAKES	\$0.85	735	\$625	748			13	\$11
SALMON FLAKES	\$1.31	815	\$1,068	831			16	\$21
\$.37 STAMP ENVELOPE	\$0.45	3,553	\$1,599	3,573			20	\$9
MACKEREL	\$1.12	1,126	\$1,261	1,152			26	\$29

EMTC DECEMBER 31, 2003 INVENTORY COUNT RESULTS

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					F Number of Shortage (Col. E-C)	G Dollar Value of Shortage (Col. B*F) [rounded]	H Number of Overage (Col. E-C)	I Dollar Value of Overage (Col. B*H) [rounded]
KEEBLER SOFT BATCH	\$2.08	815	\$1,695	846			31	\$64
MOTHER'S DAY CARD	\$0.44	858	\$378	892			34	\$15
HUDSON HOT CHOCOLATE	\$0.30	11,226	\$3,368	11,270			44	\$13
SHRIMP	\$1.87	599	\$1,120	643			44	\$82
SNICKERS	\$0.53	1,634	\$866	1,743			109	\$58
KOOL AID TROPICAL PUNCH 6 oz	\$1.38	443	\$611	595			152	\$210
BEEFSTICK	\$0.29	13,136	\$3,809	14,515			1,379	\$400
HUDSON COFFEE	\$0.59	50,837	\$29,994	53,072			2,235	\$1,319
WRITING TABLETS	\$0.90	1,440	\$1,296	1,440				
POSTCARD	\$0.22	156	\$34	156				
BUTTERSCOTCH	\$1.82	178	\$324	178				
FIG BAR	\$3.08	509	\$1,568	509				
TANG	\$0.67	4,800	\$3,216	4,800				
DIET COCA-COLA	\$1.40	21	\$29	21				
POWERADE MTN. BLAST	\$1.43	60	\$86	60				
POWERADE FRUIT PUNCH	\$1.43	60	\$86	60				
OIL OF OLAY	\$2.84	120	\$341	120				
SHAMPOO BABY	\$2.45	1,138	\$2,788	1,138				
QUAKER APPLE & SPICE	\$0.75	165	\$124	165				
TOTAL		101	\$138,846	101	64	-\$4,630	26	\$2,361



NEW YORK CITY DEPARTMENT OF CORRECTION
Martin F. Horn, Commissioner
Office of the Commissioner

60 Hudson Street
New York, NY 10013

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June 25, 2004

Greg Brooks
Deputy Comptroller, Policy, Audits,
Accountancy and Contracts
Office of the City Comptroller
1 Centre Street
New York, N.Y. 10007-2341

Dear Mr. Brooks:

Attached is this agency's response to your Draft Audit Report on the Internal Controls Over Commissary Operations by The Department of Correction (MG04-117A). Please include our response and this cover letter in the body of the final report and as an appendix to the final report.

In submitting this response, I first want to express my appreciation to the Comptroller and his staff for this report. However, I am disappointed that the report did not prominently indicate that I specifically requested this audit and that this information was relegated to page six of the report. Please include this information in the introduction of your final report.

I also ask you to correct the misleading and inaccurate statements about the inventory discrepancies found by the auditors. While the actual difference between the dollar value of our physical inventory and the value reported in our inventory records was only 2 percent at EMTC and was only 4 percent at GMDC, the audit report states, on pages 1 and 8, that these discrepancies were 89 and 94 percent respectively. Please see the attached response for a full discussion of this issue.

Further, in so far as we are regulated by State Commission of Correction standards in this area, our compliance with these standards should have been audited as well.

If you have any questions regarding this response, please contact Leroy Grant, Bureau Chief, Inspectional Services and Compliance Division at (718) 546-8155.

Sincerely,



MARTIN F. HORN

Cc: Peter Madonia, Chief of Staff
Susan Kupferman, Director, Mayor's Office of Operations

NEW YORK CITY DEPARTMENT OF CORRECTION RESPONSE

AUDIT REPORT ON THE INTERNAL CONTROLS OVER COMMISSARY OPERATIONS

I appreciate this opportunity for review and comment on the City Comptroller's draft report on the Department's Internal Controls Over Commissary Operations.

As you are aware, this audit was initiated at my request. I believe that the request for this audit, the actions taken thus far, and our future plans as described in our response to the recommendations indicated below, reflect our commitment to improve internal controls in the commissaries.

Recommendation # 1

Require the use of IFCOM bar code scanners when the commissary staff process inmate sales, enter received goods, and conduct physical inventory counts so as to minimize data entry errors and to provide a more accurate accounting of sales and inventory.

Agency Response

The audit report's discussion of inventory discrepancies is misleading and does not put the discrepancies found in the proper context. Furthermore, the Comptroller's finding that the "GMDC and EMTC commissaries had gross discrepancies of 94 and 89 percent, respectively, between the amounts of inventory on hand and the amounts reported in the inventory records" is untrue. In fact, the GMDC and EMTC commissaries had total (net) dollar value discrepancies of four and two percent, respectively, between the amounts of inventory on hand and the amounts reported in the inventory records. The percentages cited in the audit report represent the proportion of items that had any discrepancies at all, not the gross discrepancy as stated in the audit report.

In the audit conference, the Comptroller's staff agreed that the audit found relatively small discrepancies in a high percentage of items and that this was probably mostly due to keying errors. We asked the Comptroller's staff to state this fact and to provide a more accurate and nuanced discussion of the discrepancies found so that a lay reader could gain better understanding of the situation. It is surprising the Comptroller's office – an office with the function of ensuring truth and accuracy in reporting – did not follow up on this recommendation.

As discussed in the audit conference, a balanced look at the accuracy of inventory record keeping would include both the net and gross discrepancy rates. For example, if a commissary actually sold item 96, Diet Pepsi, for the sales price of \$1.40, but keyed in item 97, Pepsi, (also costing \$1.40), then this would lead to a gross discrepancy of two items and \$2.80. It is fair for the Comptroller to report the gross discrepancy rate for the reasons stated in the audit report. However, the net discrepancy of zero from this transaction is more indicative of the loss as viewed by the public at large.

The Comptroller's emphasis on the percentage of items in inventory that show incorrect amounts or values is also misleading. Given the high turnover of most commissary stock and assuming random miscoding errors, one would expect small discrepancies in a high percentage of items. More disturbing would be systematic errors or disproportionate discrepancies. However, the audit does not address whether or not such discrepancies existed.

While we are disappointed that the audit report's discussion of inventory discrepancies is not more evenhanded, we acknowledge that keying errors compromise our perpetual inventory system. The use of scanners by commissary staff when processing inmate sales, entering received goods, and conducting physical inventory counts would greatly reduce the instances of keying errors. The current scanners used in DOC commissaries are not detachable hand-held scanners as would be necessary for use in conducting physical inventory counts or in the receipt of goods. The Department will research additional types of scanners currently on the market including hand-held scanners that could be used in this type of operation. DOC will also require use of the existing scanners by commissary personnel involved with the sale of commissary products. To address concerns that the existing scanners slow down the processing of sales, the Department will research whether another type of scanner would be more effective.

Recommendation # 2

Ensure that all discrepancies in the inventory be properly investigated. The findings of the investigation must be documented in writing and reported to the appropriate management level, as required.

Agency Response

The Department will ensure that all inventory discrepancies are fully documented. In addition, the Department has developed a list of acceptable adjustment reasons that will be implemented in the IFCOM system effective July 1, 2004.

The Department will also update Directive 1501R, Commissary Procedures, to ensure that the circumstances, when an investigation is required, are clear. The directive will be updated by August 1, 2004.

Recommendation # 3

Ensure that commissary personnel follow the DOC Inventory Control Policy and Procedures Manual when conducting inventory counts. Commissary personnel should not conduct inventory counts.

Agency Response

The Department will reiterate that all of the policies and procedures contained in the DOC Inventory Control Policy and Procedures Manual be strictly adhered to.

Inventories counted by commissary personnel will be returned for non-compliance of the DOC Inventory Control Policy and Procedures Manual. All instances of non-compliance must be explained in detail by the head of the facility including a planned corrective action for future inventories conducted at the respective commissary.

Recommendation # 4

Enforce the procedures that require commissaries to notify the CCU prior to conducting interim periodic inventory counts. All subsequent adjustments to IFCOM should be approved and authorized.

Agency Response

The Department will change the inventory process and require monthly physical inventories beginning July 1, 2004. The results of all inventories will be forwarded to the Central Commissary Unit (CCU) at Financial Services Division. Facility access to the IFCOM inventory adjustment screens also will be revoked, and the facilities will only be granted access after the CCU has reviewed the proposed adjustments. The CCU will monitor all proposed adjustments to ensure that discrepancies are investigated in accordance with the directive. This will prevent facilities from conducting interim inventory counts without the proper notifications.

Recommendation # 5

Institute procedures requiring that at the beginning of the condemnation process, the commissaries obtain written authorization from CCU to condemn goods. This authorization should include direction from the CCU on how the goods are to be disposed.

Agency Response

As stated, the CCU will institute procedures by July 1, 2004, which will revoke facility access to all adjustment screens. The CCU will grant access on an as needed basis and will only grant access after reviewing and ensuring that all of the paperwork has been completed and submitted. This will prevent the facilities from condemning goods without proper authorization. Upon granting adjustment screen access, the CCU will notify the facility of the proper disposal of any condemned items.

Recommendation # 6

Ensure that the condemnation procedures are followed prior to condemning and discarding any items in inventory. This would include prior approval from the CCU, examination of the condemned items by the appropriate personnel, and listing of each item on a Condemnation Request Form and Verification Form.

Agency Response

As mentioned above, the CCU will revoke facility access to all adjustment screens. This action will ensure that the Central Commissary Unit approves all inventories and adjustments. This will enable the department to enforce existing policies and procedures.

Recommendation # 7

Institute a written policy that would require the commissaries to return condemned and expired items, to the extent possible, to the vendors for credit or exchange.

Agency Response

In general, goods that can be returned to the vendor for credit or exchange are indeed returned to the vendor for credit or exchange. In most instances in the past, vendors provided exchange in merchandise, and no entries were made in IFCOM (as the exchanges were inventory neutral). The Department will implement a written policy effective August 1, 2004 requiring that exchanges and/or returns for credit are recorded in IFCOM to ensure proper accounting.

Recommendation # 8

Require the CCU to adequately monitor the commissaries and enforce their compliance with the DOC inventory procedure and reporting requirements: carefully review documents submitted by the commissaries for completeness and accuracy and request where applicable, documentation that is missing and additional information when documentation is incomplete.

Agency Response

In general, CCU does adequately monitor the facilities and enforce compliance with the DOC inventory procedures. The audit report cites seven variances that were greater than \$600 and for which no Unusual Incident Reports were filed. However, Unusual Incident Reports are only filed when discrepancies cannot be adequately explained. By August 1, 2004, Directive 1501R will be amended to clarify that Unusual Incident Reports are only required in such instances. With the standardized list of acceptable adjustment reasons and CCU control over all adjustment screens, the amended procedure will provide appropriate inventory control.

The CCU will continue to review all submissions for accuracy and completeness and will request additional information when necessary. In fact, since the time of the audit, DOC has provided additional staff resources to the CCU to improve the quality and thoroughness of its review.

Recommendation # 9

Require the CCU to conduct periodic reviews of the commissaries' inventory practices.

Agency Response

The Department will now require that all facilities perform monthly instead of quarterly physical inventories. In addition, the CCU will conduct regular reviews to ensure compliance with all directives.