City of Philadelphia Pennsylvania

OFFICE OF THE CONTROLLER

PHILADELPHIA PRISON SYSTEM

PhilaCor: Improvements Needed In Accounting and Operational Procedures

December 2015

City Controller

Alan Butkovitz

Promoting honest, efficient & fully accountable government

CITY OF PHILADELPHIA

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Deputy City Controller

January 4, 2016

Mr. Louis Giorla, Commissioner
Philadelphia Prison System
7901 State Road
Philadelphia, PA 19136-3407

Dear Commissioner Giorla:

Through a representative of your office, you asked the Office of the Controller to review the accounting and operational procedures of PhilaCor, which is a prison program for preparing incarcerated persons for re-entry into society. Accordingly, we conducted a performance audit, the objective of which was to determine if PhilaCor had designed and implemented procedures to achieve reliable financial information, as well as to ensure both the effectiveness and efficiency of its operations. A synopsis of the results of our work, which was performed in accordance with *Government Auditing Standards*, is provided in the executive summary to the report.

We discussed our findings and recommendations with you and your staff at an exit conference and have included your written response to those findings and recommendations. We believe that our recommendations, if implemented by management, will improve PhilaCor's operations and the reliability of its reported accounting information. Our recommendations have been numbered to facilitate tracking and follow-up in subsequent years.

We would like to express our thanks to you, your staff, and the staff of PhilaCor for the courtesy and cooperation displayed during the conduct of our work.

Very truly yours,

ALAN BUTKOVITZ
City Controller

cc: Honorable James F. Kenney, Mayor
Honorable Darrell L. Clarke, President
and Honorable Members of City Council
Members of the Mayor's Cabinet

PHILADELPHIA PRISON SYSTEM

PhilaCor: Improvements Needed in Accounting and Operational Procedures

EXECUTIVE SUMMARY

Why The Controller's Office Conducted The Audit

In response to a request from the Philadelphia Prison System (PPS) and pursuant to Section 6-400(d) of the Home Rule Charter, the Office of the Controller (Controller's Office) conducted a performance audit of the PhilaCor program.

PhilaCor is the divisional name for the inmate trades program consisting of ten industry shops, which have evolved through the years and are located throughout the Philadelphia Prison System. The program's primary purpose is to train inmates so they are equipped with transferable job skills and a work ethic that will help prepare them for reentry into society and employment after their release. Our objectives were to ascertain whether PhilaCor had designed and implemented control processes and procedures to achieve reliable financial information for both internal and external use, as well as to ensure the efficiency of its operations.

What The Controller's Office Found

Control processes and procedures to ensure reliable financial information about PhilaCor, as well as both effective and efficient operations need significant improvement. We observed procedures across all of the industries that were poorly designed and implemented. Some of the more significant findings included:

Identified Control Deficiencies	Barricade	Carpentry	Culinary	Dry Cleaning	Finishing	General Products	Laundry	Printing	Textiles	Upholstery
Revenue receipts not deposited timely	√	√	√	√	√		√	√	√	√
Inadequate token collection and settlement process			√	√						
Tokens collected not reconciled to daily sales			√	√						
Inadequate billing and pricing procedures	√	√	√	√	√	√	√	√	√	√
Inventory controls not in place	√	√	√	√	√	√	√	√	√	√
Weak petty cash funds controls	√	√	√	√	√	√	√	√	√	√
Duplicate accounting records maintained	√	√	√	√	√	√	√	√	√	√

Although PhilaCor managers appeared to be skilled in their crafts, they lack the financial skills needed to operate a business. Additionally, we observed that PPS management had not provided adequate oversight to ensure that PhilaCor operated effectively.

What The Controller's Office Recommends

The Controller's Office has developed a number of recommendations to address the above findings. The primary recommendation is that PPS management should provide guidance in the form of written detailed procedures, adequate training, and oversight of the correctional industries program.

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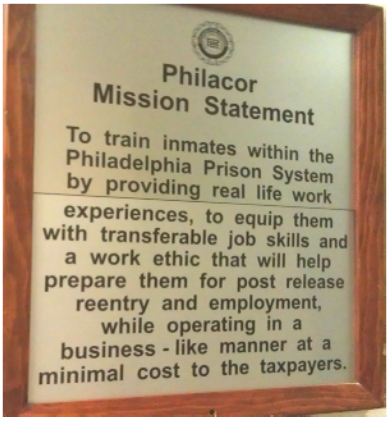
Purpose of PhilaCor



Among its several functions, the Philadelphia Prison System has been charged with preparing incarcerated persons for re-entry into society so they can become law-abiding citizens. One of the programs used to accomplish this function, is PhilaCor.[1]

PhilaCor is the divisional name for the inmate trades program consisting of ten industry shops, which have evolved through the years and are located throughout the Philadelphia Prison System. These industry shops include:

- Barricade Plant
- Carpentry Shop
- Culinary Arts
- Dry Cleaning Plant
- Finishing Plant
- General Products Plant
- Laundry
- Graphics Plant (Print)
- Textiles Plant
- Upholstery Plant

A full description of each of the above industries can be found in Appendix II of the report.

PhilaCor's primary purpose is to train inmates so they are equipped with transferable job skills and a work ethic that will help prepare them for reentry into society and employment after their release. Training is to occur by providing inmates with real life work experiences operating in a business-like manner at minimal costs to taxpayers.

Description of PhilaCor Operations

Funding Sources

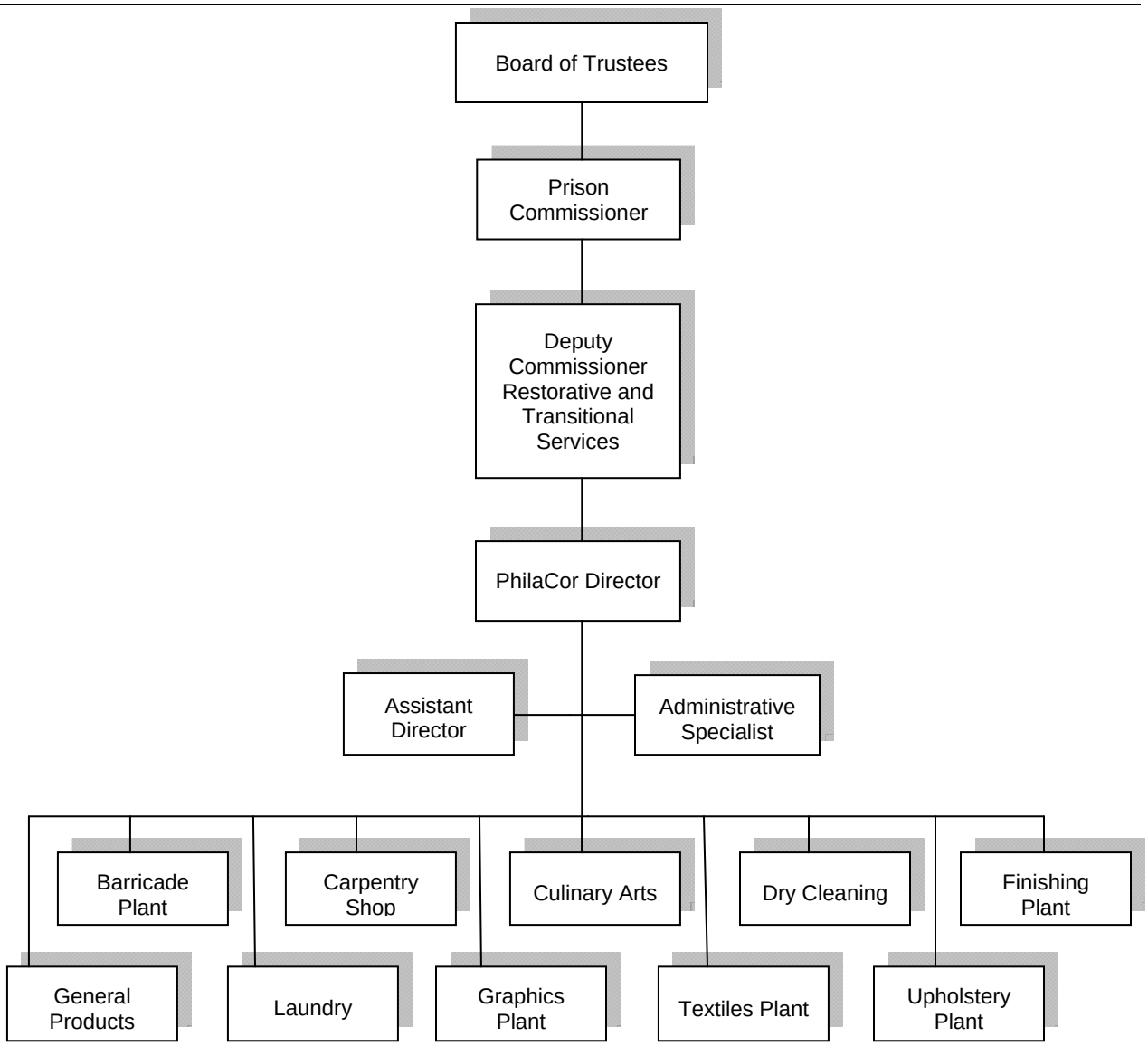
PhilaCor operates through a revolving fund, which was created by City Council legislation.[2] The fund affords PhilaCor with the ability to manage operating expenses and to acquire raw materials and equipment on an as needed basis. PhilaCor deposits its revenues into the revolving fund and pays out expenditures from the fund. PhilaCor receives no direct appropriations from the City of Philadelphia (City) to fund its operations.

[1] PhilaCor evolved from the Correctional Industries in Philadelphia which originated in 1933. The first industry programs consisted of carpentry, printing, shoe-making and a farm.
[2] Bill number 1796, which was signed into effect on April 22, 1975.

Organizational Structure

PhilaCor is a division of the Philadelphia Prison System (PPS). Oversight of PhilaCor's operations is assigned to PPS's Deputy Commissioner for Restorative and Transitional Services, to whom the Director of PhilaCor reports. PhilaCor's Director, with the assistance of administrative staff along with industry shop supervisory employees, oversees the 10 industry shops and the participating inmates.

Figure 1: Organization of PhilaCor



Source: Prepared by the Office of the Controller

Overview of Operations

PhilaCor's customer base is all city agencies, non-profit agencies with a city contract, and the School District of Philadelphia. PhilaCor's administrative unit, responsible for the efficient operation of the correctional industry program, provides administrative support, accounting, and policy guidelines to the industry shops. It also produces the annual catalog of goods and services provided which lists prices and details ordering instructions. Each of the ten industry shops are usually staffed with at least one industry shop supervisor who is responsible for training the assigned inmates, and a correctional officer in charge of security. All ten shops are serviced by the Shipping and Receiving unit which operates separately and is responsible for delivery and transportation of goods sold.

Financial Operations

Assets

PhilaCor has cash assets in the form of an imprest petty cash account with a total authorized balance of $12,000. Personal property such as industry shop equipment and tools, vehicles, and office computers constitute the bulk of PhilaCor's assets. At the beginning of fiscal year 2015, records show PhilaCor had personal property with a cost value of $1.5 million dollars. Additionally, each of PhilaCor's ten industry shops owns inventory. However, because inventory records are not maintained, the value of the inventory on hand is unknown.

Revenue Streams

PhilaCor has two revenue streams: 1) income from the goods and services sold by the ten industry shops; and 2) token sales receipts that are used to pay for culinary and dry cleaning goods and services. The ten industry shops earned total revenue in fiscal years 2012, 2013, and 2014 in the amount of $792,783, $825,253 and $872,118, respectively. Token sales receipts for fiscal years 2012, 2013, and 2014 were $16,997, $37,882 and $52,330, respectively. For fiscal year 2015, revenue generated during July 2014 through February 2015 amounted to $327,008 from the prison industry shops and $44,964 from token sales.

Expenditures

Expenditures charged to the PhilaCor program include raw materials, supplies, equipment leases and indemnities (inmate wages). The cost for inmate labor approximates $100,000 per year. For fiscal year 2012, 2013, and 2014, program expenditures totaled $943,786, $988,105, and $1.03 million, respectively.

Financial Reporting

The financial results of operations are reported in a Special Revenue Fund specifically established by the city to account for the prison correctional industry as a self-sustaining program. All program revenues and

expenditures are accounted for through the City's Financial Accounting System (FAMIS) within this fund. A separate annual financial report is not generated for this fund; instead it is included in the City's Comprehensive Annual Financial Report (CAFR).

PhilaCor Controls Over Financial Information and Operations Need Significant Improvement

Control processes and procedures to ensure reliable financial information, as well as both effective and efficient operations relating to the Prison's PhilaCor industries are inadequate. We observed procedures that were poorly designed and implemented for revenue and collection activities, inventory, and petty cash. Notable also, were other matters involving improvements needed in accounting for PhilaCor's financial activity and determining the sustainability of the industry programs at the PPS.

The inadequate procedures and other matters requiring improvement have occurred because PhilaCor managers do not appear to have the necessary skill set to properly design, implement, and operate an adequate control system. Moreover, Prison management has not provided the necessary guidance, training, and oversight that would foster development of such a system. As a result, reported financial activity about PhilaCor is inaccurate, assets used are inadequately safeguarded, and the efficiency of the program is unknown.

Revenue and Collections at Risk for Errors and Loss

PhilaCor generates revenue from the production of goods and service for its customers that include the Prisons, various city agencies, local charter schools, non-profits that have a contract with the city and the School District of Philadelphia. These revenues are received in various forms that include: 1) interagency transfers involving city agencies 2) checks generally received from the school district and non-profit organizations; and 3) cash received through machines that dispense tokens, which are used to pay for dry cleaning services and for food and beverages at the Prison's cafeteria for visitors. Our analysis of the control processes and procedures over these revenue streams identified problems involving the: 1) *billings for goods and services*; 2) *collection of coin and currency from token dispensing machines*; 3) *physical security over token machines*, and 4) *frequency of bank deposits for receipts*. Each of these problems is discussed below.

<u>Billing Procedures for Goods and Services Require Improvement</u>

ID Bills Generally Not Independently Reviewed and Authorized

To minimize the risk of errors and improprieties, effective controls require that manually-prepared billings to customers be independently reviewed for accuracy and approved by a supervisor. Observations we made of 42 PhilaCor billings (referred to as "ID Bills")[3] for goods and services to customers revealed almost 90 percent of them showed no evidence of being reviewed and / or approved by a second individual. Of the 42 ID bills examined, 25 of them, totaling nearly $94,000, involved standardized items, such as chairs, pre-designed furniture, and engraved signs listed in PhilaCor's annual catalogs. When we compared prices charged on the billings to those listed in the catalogs, we observed that some nominal errors had occurred.

[3] We haphazardly selected the bills from PhilaCor's file of "ID Bills" organized by year and shop.

Bills for Custom Orders Lacked Documented Basis for Pricing

The remaining 17 ID Bills that totaled $5,300 were for custom orders. Orders included culinary items such as food trays, beverages, and cakes, as well as printing products that included, for example, signs, forms, and booklets. All these bills appeared arbitrarily prepared without documentation, such as an analysis detailing what direct and indirect costs were included in the prices.

No Documented Origin for Catalog Prices

In a related matter, PhilaCor had no documentation to support price amounts for the products portrayed in its catalog. Management could not provide us with a cost / profit margin analysis for any of the items listed. In a "business-like" environment, managers generally determine product pricing by analyzing direct costs to manufacture a product including labor and materials, and indirect costs for overhead operation. They then factor in a profit margin. While the goal of PhilaCor is not to generate a profit, it is to minimize the cost to the taxpayers. Without documenting how it arrived at its prices, PhilaCor does not know whether it is charging appropriate prices and thus minimizing program cost.

To further illustrate the point, PhilaCor lists a number of products such as executive desks, chairs, hutches, and credenzas in its annual catalog. To manufacture an executive desk, for instance, the furniture plant must first build the desk in the Carpentry Shop using wood supplies, and then place a surface coating on it using stains and varnishes in the Finishing Shop. Each of the shops incur direct costs (such as labor, raw materials, and direct supplies used to build the furniture), as well as indirect costs (for instance, equipment depreciation, payroll taxes, utilities, and indirect supplies) that are allocated to the product.

Enhancements Necessary Over the Collection of Coin and Currency from Token Dispensing Machines

Patrons of PhilaCor's Dry Cleaning Industry Shop and its "Hard Time Café" pay for the goods and services they purchase using tokens obtained from one of three token dispensing machines located at the Prisons.[4] Only the tokens are accepted for payment and each token costs one dollar. To obtain the tokens, patrons must insert money into one of the three machines, which accept currency in denominations of $1, $5, $10, or $20 bills and coin. The PhilaCor administration unit is responsible for maintaining the three machines and ensuring the accurate collection and subsequent deposit of cash into the city's consolidated cash bank account.

[4] One token dispensing machine is located on-site at the dry cleaning facility within the House of Corrections (HOC), while the other two machines are located near the two "Hard Time Café" kiosks in the lobbies of the Philadelphia Industrial Correctional Center (PICC) and the Curran-Fromhold Correctional Facility (CFCF).

No Written Procedures Detailing Token Machine Processes

Our observations and inquiries regarding procedures over the collection of coin and currency from the token dispensing machines disclosed several deficiencies that require Prison management's attention. First and foremost, formal written procedures describing the machine collection, settlement, and deposit processes did not exist. There were no instructions detailing how frequently coin and currency was to be removed from the machines. Nor was there any information on who was to collect and remove the money from the machines, how it was to be done to ensure all money was accounted for and when and how deposits into the city's bank account were to occur.

Formal written procedures are a necessary part of an effective internal control system, as they provide employees with guidance in carrying out their duties and responsibilities. Moreover, they assure continuity of procedures when changes in personnel occur. Without written procedures, management increases the risk of an ineffective system, leading to errors and improprieties.

In addition to the lack of formal written procedures, we also observed the following other deficiencies pertaining to the token dispensing machines and the sales related to the tokens:

- coin and currency was not removed and deposited into the city's bank account on a timely manner;
- internal machine counters were not used as a control over the machine settlement process; and
- procedures had not been designed and placed in operation to account for all daily sale transactions of the Dry Cleaning Industries Shop and the two locations of the "Hard Time Café."

Each of the above deficiencies is described more thoroughly below.

Token Machine Coin and Currency Deposited Only Once Every Two Months

Best practice suggests that cash, which is particularly vulnerable to loss, be collected, counted, and deposited into the bank on a regular basis to safeguard it against loss. Our observations disclosed PhilaCor staff carried out these procedures too infrequently. A review of the token dispensing machine "cash log" indicates that collections were performed as infrequently as 35 to 102 days. On average, deposits occurred only about once every two months (every 63 days). Table 1 below summarizes the findings of our analysis of the log.

When we inquired about why cash collections were being performed so infrequently, PhilaCor management gave us several reasons. In part, they said, there were staff shortages and the individuals dedicated to the

Table 1: Frequency of Currency and Coin Collections from Token Machines

Cash Collection Date	Elapsed Days Since the Last Cash Collection	Amount Collected Token Machine Dry Cleaner	Amount Collected Token Machine Hard Time PICC	Amount Collected Token Machine Hard Time CFCF**	Total Amount Collected
03/14/2012		$3,496.00	$5,223.00		$8,719.00
04/25/2012	42	1,922.00	1,662.00		3,584.00
06/29/2012	65	2,369.00	3,219.00		5,588.00
08/23/2012	55	2,450.00	4,669.00		7,119.00
11/06/2012	75	3,574.00	5,529.00		9,103.00
02/13/2013	99	4,943.00	4,477.00		9,420.00
05/03/2013	79	3,803.00	7,646.00		11,449.00
06/07/2013	35	1,903.00	2,355.00	$5,463.00	9,721.00
08/08/2013	62	3,751.00	4,287.00	6,645.00	14,683.00
10/29/2013	82	5,277.00	4,644.00	4,700.00	14,621.00
12/10/2013	42	4,862.00	4,143.00	5,566.00	14,571.00
02/12/2014	64	4,591.00	2,397.00	4,930.00	11,918.00
04/15/2014	62	4,504.00	5,662.00	8,507.00	18,673.00
07/25/2014	101	7,388.00	7,340.00	10,253.00	24,981.00
11/04/2014	102	6,528.75	6,627.00	8,813.00	21,968.75
11/07/2014*	3	1,590.00	0	0	1,590.00
12/10/2014	33	2,815.00	2,740.00	3,688.00	9,243.00
Total		$65,766.75	$72,620.00	$58,565.00	$196,951.75

*to count a money bag inadvertently left inside a token machine.
**the Hard Time Café at CFCF opened in May 2013.

Source: Office of the Controller, from the token cash log

process had other administrative responsibilities. Managers also told us that counting the currency and coin in the machine and preparing the bank deposits simply took too long. Consequently, those responsible would procrastinate and defer performing these functions. In addition, we were told that prior to March 2012, the tasks were performed by a PPS manager, and that no one from PPS provided PhilaCor staff with any training and / or instructions. Because, as mentioned previously, there were no formal written procedures, PhilaCor staff had no guidance on how and when to collect and count the cash, assemble the deposits, and record the receipts in the accounting records.

We observed that to keep the token dispensing machines in operation, PhilaCor staff[5] emptied out the bill acceptor or "hopper" frequently since the machines would malfunction if overloaded. However, the coin and currency in the hopper was only transferred to a money bag, where it was kept uncounted and inside the locked token dispensing machine, until PhilaCor staff had time to count it and assemble the bank deposit.

As part of our audit, we observed a count of coin and currency that occurred on November 4, 2014. We noted that it took staff a considerable amount of time to complete the count, as nearly $22,000 had accumulated inside the machines. More frequent cash counts could eliminate the need to spend so much time performing this function on any one date.

Machines' Internal Counters Not Used for Settlement Process

Our observations also revealed that PhilaCor's process to settle out and account for money in the token dispensing machines was also flawed and because of it, management was exposed to higher risk for theft of cash. More specifically, PhilaCor staff did not perform a settlement process. Although token machines are equipped with internal counting devices, which can track "*Revenue In*", "*Revenue Out*", "*Coins In*" and "*Bills In*",[6] PhilaCor staff did not use these readings to balance against the coin and currency removed from the machines. Staff recorded in a "cash log" the numerical amount shown on the counters each time they emptied the "hoppers", but they would never reset the counters to zero. Instead, they left the counters to accumulate.

As part of the audit, we attempted to reconcile the collected amounts of coin and currency to the machines' internal counters. Using the dates and dollar amounts that PhilaCor staff recorded in the logs on the days they physically removed money bags from the machine storage areas, we compared the amounts indicated as collected against the expected coin and currency collected. We computed expected amounts by subtracting the previous counter total from the accumulated counter total on the recorded date of the count. Figure 2 below further illustrates the methodology by way of example using machine counter readings recorded in PhilaCor's cash collection log for the Dry Cleaning Industry Shop on March 14th and April 25th of 2012.

[5] The assistant director and director of PhilaCor, who are the only individuals reportedly to have possession of the token machine keys, perform this function.

[6] A device within the machines allows for switching the counters to anyone of these four descriptive categories. In theory, "*Revenue In*" should equal "*Revenue Out*" or "*Coins In*" plus "*Bills In*".

Figure 2: Methodology for Reconciling Collected Cash to Expected Cash Collected Totals

Accumulated machine counter reading (04/25/2012)	5419
Less previous machine counter reading (03/14/2012)	3508
Machine counter difference	1911
Expected cash collections (machine counter difference)	$1,911
PhilaCor cash collections recorded on 04/25/2012	1,922
Cash overage (shortage)	$ 11

Source: Prepared by the Office of the Controller based on PhilaCor's cash log

Our analysis, using the above methodology, disclosed that discrepancies frequently existed between the expected coin and currency recorded as collected and the expected amounts that records suggest should have been collected. For instance, discrepancies at the Dry Cleaning Industry Shop ranged from an overage of $1,203 on October 29, 2013 to a shortage of $1,061 on November 4, 2014. Discrepancy amounts for the other two machines located in the "Hard Time Café" facilities were not as drastic, but nevertheless, did occur. Detailed monthly breakouts of the counter readings and cash collections for each of the machines are presented in Appendix IV.

Dry Cleaning and Café Daily Sales Transactions Not Adequately Accounted For

It is common practice among well run businesses to establish procedures that account for all sale transactions. In many businesses, this accountability is accomplished by the use of cash register devices. Because PhilaCor's Dry Cleaning Industry Shop and its two "Hard Time Cafés" only accept tokens, such devices are not used. However, the use of tokens in lieu of cash does not exempt these industry shops from accounting for all their sale transactions.

Our audit disclosed that neither the Dry Cleaning Industry Shop nor the two "Hard Time Cafés" are accounting for their daily sales activity. Consequently, PhilaCor management risks having its employees provide free goods and services to customers at the expense of taxpayers.

At the Dry Cleaning Industry Shop, for instance, tokens that employees collect in return for cleaning services are simply placed in a lock box located under the counter where they are kept until someone decides it is necessary to replenish the token dispensing machine. At the end of the workday, no one counts the tokens in the lockbox and compares them to

sale amounts recorded by the shop's dry cleaning software, DryClean PRO. If used properly, this software enables management to track such things as each ticket, each garment, and each payment received. At the end of each day, payments received should be reconciled to the tokens placed in the lockbox for that day.

At the Hard Time Café, tokens collected for food orders are placed in an open bucket. After the lunch shift, the industry shop supervisor counts the tokens and records the count on a post-it note, as well as on a desk calendar. Here again, however, no one performs a daily reconciliation between the tokens collected and the daily sales. Nor does anyone maintain an inventory of the daily food, beverage, and other items for sale at the beginning and end of each day and then reconcile the total sales amount of the items sold to the tokens collected. Without such reconciliations, items for sale could be routinely misappropriated and not be detected by management.

We believe that a standardized menu template, which includes the beginning and ending inventory of each daily menu item, can be used to quickly and adequately reconcile daily sales to daily tokens collected. This form should then be approved by the culinary arts industry shop supervisors, and then given to PhilaCor's director for review, approval, and recording of sales into the accounting records.

Physical Security of Cash in Token Machines Require Strengthening

Token Machine Key Not Physically Secured to Prevent Unauthorized Access to Cash

Observations we made of PhilaCor's procedures over cash associated with the token dispensing machines suggest that Prison and PhilaCor managers need to be more conscious about making certain these funds are physically secure at all times. As mentioned earlier (see footnote 5), the PhilaCor director and assistant director are reportedly the only individuals to have possession of the keys to the token machine dispensers. While we observed that the director kept the key physically in his possession, the assistant director hung his key in his office in a location visible and accessible to others. This situation increases the risk that an unauthorized individual could gain access to the coin and currency in the token machines. Indeed, on the day we witnessed the assistant director open the token machine closest to the Dry Cleaners Shop, he found a $10 and a $20 bill in the change sleeve, which, according to the assistant director, does not normally occur. He suggested the director may have opened the machine to make change for himself. However, in a subsequent conversation with the director, he denied ever doing so leaving open the question of whether someone else may have gained unauthorized access to the machine key.

Token Machine Not Adequately Secured and Bolted to Floor

In addition to the above deficiency, we noted that the token dispensing machine inside the Dry Cleaning industry shop was not securely bolted to the floor. With a substantial amount of money kept within each token dispensing machine, it is imperative to keep the machines securely bolted to the floor and, if possible, monitored by video cameras at all times. On a subsequent inspection of the machine, we noted that it had been secured and properly bolted to the floor.

Bank Deposits Need to Be More Frequent

In another matter related to physical security, it is generally considered a best practice to collect and make deposits of collected revenue amounts on a frequent basis to minimize the risk of theft. Although the frequency of deposits is a matter of judgment, we believe that the volume of PhilaCor's cash and checks necessitate deposits be made at least weekly.

Table 2:Infrequency of Deposits

Fiscal Year	Date of Earliest Revenue Receipt	Deposit Date	Elapsed Days	Total Deposit Amount
	7/09/2012	8/07/2012	29	$1,807.00
	8/02/2012	8/23/2012	21	4,541.00
	8/02/2012	10/03/2012	62	11,662.00
	9/28/2012	11/13/2012	46	1,960.00
	11/19/2012	12/12/2012	23	803.00
2013	12/26/2012	2/06/2013	42	627.00
	2/13/2013	3/13/2013	28	809.00
	3/15/2013	4/25/2013	41	1,192.00
	5/01/2013	5/23/2013	22	5,744.00
	6/10/2013	6/10/2013	0	2,159.00
	6/20/2013	7/03/2013	13	753.00
	7/02/2013	8/12/2013	41	375.00
	9/12/2013	9/27/2013	15	698.00
	9/30/2013	10/29/2013	29	320.00
	11/06/2013	12/4/2013	28	23.00
2014	9/06/2013	12/26/2013	111	1,595.00
	12/18/2013	3/17/2014	89	4,147.00
	3/21/2014	4/14/2014	24	1,078.00
	4/24/2014	5/09/2014	15	150.00
	5/19/2014	6/02/2014	14	617.53
	7/08/2014	7/28/2014	20	44.00
2015	8/07/2014	8/21/2014	14	440.00
	8/27/2014	10/07/2014	41	$8,153.00

Source: Office of the Controller from inspection of PhilaCor's revenue receipts log

Cash and Checks Not Timely Deposited

As Table 2 depicts above, we found that checks collected by PhilaCor for furniture and catering during fiscal years 2013, 2014 and 2015 were held

on the premises much too long. For example, during fiscal year 2014, we observed one deposit made 111 days, or nearly four months after the date of the earliest revenue collected. During the same fiscal year, and excluding the 111 days, PhilaCor generally made deposits of money collected for furniture and catering only about once a month. For the rest of the years examined, we noted a similar trend. Allowing collected amounts to remain on the premises for such a long period fails to maximize earnings that could be made on the funds if deposited with the bank more frequently, and increases management's exposure to loss of the money due to theft.

PhilaCor's Lack of Inventory Controls Exposes It to Mismanagement and Pilferage

All ten PhilaCor industry shops maintain either a stock of products to sell or raw materials and supplies used in the production of saleable goods. Designing and implementing procedures to accurately account for and safeguard these products, raw materials and supplies is essential to properly operate a business. Without them, a business cannot be certain what products and/or materials and supplies it has on hand or whether it has established a fair and appropriate price for which to sell its goods. It also increases the risk of undetected pilferage, thus increasing the cost to operate, which in the government environment, wastes limited taxpayer funded resources.

Perpetual Inventory System Is Not Maintained

Our audit observations revealed that not one industry shop maintained a properly functioning and adequate inventory system — no perpetual inventory system existed, bin cards were not in use, material receipt and issue slips were not utilized, and reorder points were not established. Further, periodic inventory counts of quantities on hand were not conducted.

In business, a perpetual inventory system describes a method for continually accounting for inflow and outflow of stock. It aids management to regularly keep track of incoming and outgoing materials, work-in-progress and daily sales of goods. A perpetual inventory system also provides management with a way to check sales and stock records against each other for accuracy. Although a perpetual inventory system is still vulnerable to errors because of overstatements (commonly referred to as phantom inventory) or understatements (missing inventory, which can be the result of theft, breakage, or untracked inventory movements), it does have benefits. It enhances record-keeping practices, making it easier to calculate the cost of goods sold. Moreover, it permits a business entity to obtain the balance on hand of any stock item so it knows when to order more.

Essential to any perpetual inventory system are the use of bin cards and material receipt and issue slips. Bin cards, (sometimes referred to as a "bin tag" — see the example depicted in Figure 3 below), are that part of the perpetual inventory system that provide a detailed record of inventory transactions for a stock item and the balance on hand. They should be kept in the racks along with the specified stock item or product. Once there is an

issue or receipt of an item, the bin card should be immediately updated. At any point of time, the bin card, physical quantity on hand and the balances shown in the computerized inventory system — this may be specialized inventory software or simply an EXCEL spreadsheet — should match.

Figure 3: Illustration of a Bin Card

Bin Card

Product Name: _____ **Bottle Size:** _____

Balance Brought Forward: _____ **Date:** _____

Date	In	Out	Total on Hand

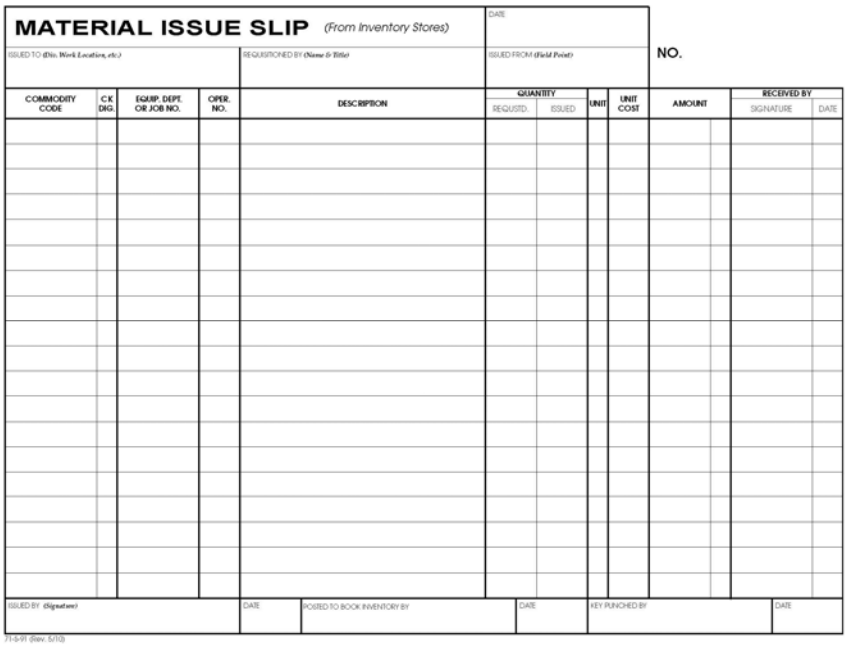
Source: Office of the Controller

Entries made to the "In" and "Out" columns of the bin card should be supported by receiving documents for the "In" column and Material Issue Slips for the "Out" column (PhilaCor's Graphic Industry prints this form for other city agencies). Each time an order of stock is received, the storekeepers for the respective inventories should inspect the goods received and ascertain the type and number of units physically received agrees with the receiving document. Differences noted should be brought to the attention of the vendor. When an employee or inmate needs to remove stock or products from the inventory, the storekeeper should complete a Material Issue Slip (see Figure 4). After recording each transaction on the bin card, the storekeepers or their designees should compute the total balance on hand, so that there is a balance maintained for each inventory item.

No Established Reorder Points

One of the advantages of a perpetual inventory system is that management can establish reorder points for each of the products or materials and supplies within its various inventories. A reorder point is the unit quantity on hand that triggers the purchase of a predetermined amount of replenishment inventory. Our inquiries into the re-ordering process found that everyone operates on the basis of "eyeing" their inventory and ordering when they think it is necessary. This situation can

Figure 4: Material Issue Slip.



MATERIAL ISSUE SLIP (From Inventory Stores)

DATE

ISSUED TO (Dis. Work Location, etc.) | REQUISITIONED BY (Name & Title) | ISSUED FROM (Field Point) | NO.

COMMODITY CODE	C.K DIG.	EQUIP. DEPT. OR JOB NO.	OPER. NO.	DESCRIPTION	QUANTITY REQUSTD.	QUANTITY ISSUED	UNIT	UNIT COST	AMOUNT	RECEIVED BY SIGNATURE	RECEIVED BY DATE

ISSUED BY (Signature) | DATE | POSTED TO BOOK INVENTORY BY | DATE | KEY PUNCHED BY | DATE

71-5-91 (Rev. 5/10)

Source: Office of the Controller

lead to running out of items needed for production and cause delays in fulfilling orders.

If the reorder point is established and works as designed, it should result in the replenishment inventory arriving just as the last of the on-hand inventory is used up.[7] In turn, this should result in uninterrupted production and the fulfillment of timely orders, while minimizing the total inventory kept on hand.

The importance of minimizing total inventory kept on hand at PhilaCor appeared somewhat inconsequential as our observations revealed an excessive number of boxes containing office chairs for resale throughout the PhilaCor shops. Upon our scrutiny of purchase orders we found two duplicate orders of 60 office chairs totaling $31,359. Instead of sending the duplicate orders back

[7] The basic formula for the reorder point is to multiply the average daily usage rate for a particular inventory item by the amount of time in days required to replenish it. For example, if the Carpentry Shop uses an average of 10 units of a particular size and type of wood in the production of a desk every day, and the number of days it takes for the supplier to replenish inventory is four days, the Carpentry Shop should set the reorder point at 40 units. When the inventory balance for this size and type of wood declines to 40 units, the Carpentry Shop should place an order and the new units should arrive four days later, just as the last on-hand units are being used up.

to the vendor, PhilaCor management decided to retain them. Moreover, the duplicate order of chairs was recorded as personal property instead of inventory, and valued at $0. We believe that a properly maintained perpetual inventory system could have avoided these duplicate purchases.

Physical Inventory Not Taken

Finally, we noted that none of the industry shops took regular periodic counts of unit quantities on hand for their inventories. Such physical inventory counts are mandated by city Standard Accounting Procedures (SAP) E-7611 *Mid-Year Physical Inventory* and E-7601 *End-of-Year Physical Inventory*. Although these procedures date back to the 1950s, they are still applicable and important so the various industries can place an accurate value on inventory.

Petty Cash Funds Are At Risk for Theft

As part of its operation, PhilaCor uses and maintains a $12,000 petty cash fund. Use of these funds is governed by a series of SAPs, which the city's Finance Office has made available to agencies on its intranet site at http://finance.phila.gov/sap/index.htm. Our review of PhilaCor's handling of the fund disclosed it does not comply with many of the required procedures stipulated in these SAPs. For instance, we observed that the fund's bank account balance shown in its check register did not appear to be reconciled against the monthly bank statement balance, as required by SAP 7.1.3.b (http://finance.phila.gov/sap/713b.pdf). We examined 29 of the reconciliations for the period from July 2012 to November 2014. All 29 had no in-transit deposits, while 22 had no outstanding checks, raising speculation about their validity. Moreover, our examination of the check register disclosed there were negative balances, incorrect check numbers, and checks that we could not account for — presumed to have been voided. We also observed that three of the bank reconciliations had the incorrect bank balance listed on them.

Bank Reconciliations Appeared Questionable

Reconciliations Not Always Reviewed

SAP 7.1.3.b. also requires that the agency's administrator (in this situation, a PPS administrator) review the completed reconciliation and all supporting documentation, paying particular attention to the aging schedule of outstanding checks and any other unusual items. When the review is completed, the reconciliation form should be signed by the responsible administrator. We found no evidence the reconciliations had been reviewed for 14 of 29 we examined.

Our observations of PhilaCor's petty cash fund activity disclosed that a substantial portion of the fund is regularly advanced to the culinary arts program for the purchase of food, most times in excess of $1,000. These advances range from $300 to $5,300 bi-weekly and are recorded as cash-on-hand in the monthly "fund" reconciliation.

Petty Cash Advances Highly Vulnerable to Theft

Review of procedures surrounding use of the advance revealed some additional vulnerability for theft. The procedures as currently designed and operating are as follows. A PhilaCor staff member uses the advances to purchase food and catering supplies from local food retailers and vendors

as directed by the shop supervisor of the culinary arts industries. The shop supervisor creates a shopping list of items to purchase in order to prepare the current menu or catering order. The staff member gives the purchased items to the supervisor, but keeps the receipts, which are later turned over to the fund custodian so they can be submitted to the Finance Office to restore the petty cash fund to its $12,000 imprest amount. There was no evidence that the shop supervisor reviewed the receipts or compared them to the purchased items, or for that matter, even the original shopping list. This situation provides the opportunity for the staff member to use some of the advance to purchase personal supplies without detection.

High Petty Cash Advances and Turnover Indicative of Need for Changes

For fiscal years 2013 and 2014, PhilaCor's petty cash custodian advanced nearly $144,000 to the culinary arts program for food purchases. While not only exposing the funds to an increased risk of theft as discussed above, the fund's turnover rate was more than double (10.09) that of the city's average petty cash turnover rate (4.30). Such a high turnover rate suggests the need for PPS management to request from the city's Finance Office an increase in the imprest balance of the fund. The high dollar amount of advanced funds to the culinary arts program might also suggest establishing a sub-fund, which is covered by SAP E-4401 and can be found at http://finance.phila.gov/sap/e4401.pdf.

Other Observations

Our review of PhilaCor's operations revealed three other observations that we believe warrant PPS management's attention. These include not:

- Utilizing the city's FAMIS accounting system to account for PhilaCor financial transactions.
- Maintaining an "all-inclusive" accounting of transactions relevant to the PhilaCor Program.
- Involving PhilaCor managers in the inmate selection process.

Each of these observations is discussed below.

PhilaCor's Profit and Loss Accounting for Each Industry is Not Relevant to Its Mission

Currently, PhilaCor utilizes one index code within the city's financial accounting system (FAMIS) to keep track of all its revenue receipts and expenditure activities. It also maintains separate subsidiary records by shop on an off-the-shelf accounting system (QuickBooks). Our review of accounting reports generated with the QuickBooks software revealed PhilaCor had a profit and loss statement for each of the 10 industry shops. We did not audit these statements, but observed they were not truly representative of each industry's operations. For instance, the statements failed to include the payroll costs associated with prison guards that work in the industries. They also did not appear to include the cost of goods manufactured and/or sold by the various industries. Excluding these costs and others that may exist (such as overhead, payroll taxes, and fringe benefit costs) raises question about the value of maintaining the second set of records.

Given PhilaCor's mission — "*To train inmates within the Philadelphia Prison System by providing real life work experiences, to equip them with transferable job skills and a work ethic that will help prepare them for post release reentry and employment, while operating in a business-like manner at a minimal cost to the taxpayers*" — tracking profit and loss of each industry appears to be an unnecessary and time consuming effort.

In our opinion, and more to the point of PhilaCor's mission, PPS management should consider discussing the possibility of obtaining a separate index code within FAMIS for each industry shop with the city's Finance Office. This would alleviate the cumbersome process of recording the transactions twice, once in FAMIS and then in QuickBooks. Further, shop specific information would be readily available from within FAMIS, enabling a PPS accountant to quickly assemble EXCEL spreadsheets to show revenues, expenditures, and the resulting net amounts to determine if each industry is operating at a "minimal cost to the taxpayers."

PhilaCor's Program Costs are Not All Inclusive

To determine whether PhilaCor is operating at "minimal cost to the taxpayers," PhilaCor and PPS managers need to know the true cost of operating each industry. As mentioned on the previous page, profit and loss statements generated using the QuickBooks software failed to include the payroll costs associated with prison guards that work in the PhilaCor industries. Costs of these wages, along with the wages of other staff, are charged against the city's General Fund. An additional $1.2 million, $1.1 million, and $1.0 million in base salaries, for fiscal year 2014, 2013, and 2012, respectively, represent costs associated with operating PhilaCor. If the mission is to operate PhilaCor at "minimal cost to the taxpayers" then such costs need to be included to make informative decisions about the operational effectiveness and efficiency of the program.

PhilaCor Managers are Not Adequately Involved with Inmate Selection

Finally, to ensure the success rate of the program, PhilaCor staff should have adequate input during the inmate selection process. PhilaCor managers informed us that they have little or no input in this process. As such, inmates that are selected to enter the program are not screened by the shop supervisors to make sure they meet the industry's hiring criteria. In turn, inmates might not be qualified for the trade, or might not be incarcerated long enough to benefit from the experience of working in the shops. Consequently, these factors could impede the success of the program.

PhilaCor Managers Skilled in Their Crafts, But Need Business Training

Although PhilaCor managers are experts in their respective crafts and have risen to the ranks of shop supervisors, they lack the financial skills of operating a business. Inquiries revealed they had little knowledge of managing, controlling, and accounting for financial transactions. None of them appeared to have knowledge of internal accounting controls and none were familiar with the Standard Accounting Procedures issued by the city's Finance Office. Discussions held with the managers revealed they received no managerial or financial training. They all appeared quite

capable of learning the necessary skills if given the opportunity to acquire them.

Prison Management Needs to Provide More Oversight of PhilaCor to Ensure Program Effectiveness

As part of the audit we observed that PPS management had not provided the necessary oversight to ensure the effective financial operation of the PhilaCor Program. Although the PhilaCor program organizationally reports to PPS's Deputy Commissioner of Restorative and Transitional Services (RTS), we found no evidence of meaningful oversight. For instance, PPS management had not provided guidance on developing and implementing detailed written procedures for routine functions related to accounting for inventory, collecting and disbursing cash, accounting for revenue receipts, as well as billing for the goods and services being sold. Failure to provide adequate oversight places the PhilaCor program in jeopardy of ineffectiveness because inmates are not being provided with a real life work experience of operating in a business-like environment. Moreover, it places city assets, most of which were funded with taxpayer dollars, at risk for misappropriation.

Conclusions

PhilaCor lacks guidance, training, and oversight from PPS management to ensure an adequate system of internal accounting controls over the safeguarding of assets and processing of financial transactions. PPS management has not allocated the necessary resources to properly support PhilaCor's activities, staff and its mission. Guidance on developing and implementing detailed written procedures for routine daily functions, and proper and adequate training on these procedures, would streamline the program's operations, improve the skill set of PhilaCor's dedicated administrative staff, and help to ensure the success of the program.

Recommendations for Management Action

To strengthen ***billing procedures*** for PhilaCor's goods and services PPS management should:

- Develop and implement a process that includes independently reviewing ID Bills prior to their issuance. Complete and accurate billings will result in improved and quicker collections. To the extent inmates can be involved in the process, it will add to their "real life work experiences" as mandated by PhilaCor's mission [202315.01].

- Establish procedures that ensure all work orders and pricing details related to custom orders are documented. When the industry shop supervisor prepares the work order and pricing details, PhilaCor's Director or Assistant Director should review it. Review of work orders and pricing will ensure that prices charged for products or services are consistent with PhilaCor's mission and any prescribed mark up [202315.02].

- Allocate appropriate resources and technical support to assist PhilaCor in developing adequate pricing guidelines for its goods and services. Prices should take into consideration all costs elements and yield a pricing model that is consistent with PhilaCor's mission of operating "at a minimal cost to the taxpayers" [202315.03].

To improve ***procedures over the collection of coin and currency from token dispensing machines***, we recommend that PPS and PhilaCor's management collaborate to develop comprehensive written policies and procedures to guide responsible PhilaCor employees on the proper use and maintenance of token dispensing machines [202315.04]. At a minimum these policies and procedures should cover the:

- Employees who should be responsible for collecting and removing money from the machines.

- Frequency of removing money from the token machines and making deposits into the city's bank depository.

- Process for settling out money removed from the machines.

With respect to removing money from the token machines and making deposits into the city's bank depository, we recommend that PhilaCor management:

- Minimize the amount of money kept inside the token dispensing machines by emptying them out on a daily or weekly (if more appropriate) basis [202315.05].

- Count money and prepare and make bank deposits each time monies are removed from the token machines [202315.06].

- Utilize the token machines' internal counters to settle out and account for all monies collected from the machine. Investigate any discrepancies [202315.07].

- Consider maintaining a door opening log for each token dispensing machine to document date, purpose, and individual who opened the token dispensing machine [202315.08].

With regard to token sales for the Dry Cleaning Industry Shop, we suggest that daily, PhilaCor management count the number of tokens collected for the day and compare them to the sales amounts recorded in the shop's DryClean Pro software and account for any discrepancies

[202315.09]. Similarly, tokens collected at the two locations of the Hard Time Café should be reconciled to the value of each cafés' daily sales of food, beverage, and other items [202315.10].

To improve the ***physical security of cash kept in the token dispensing machines,*** PhilaCor management should make certain that:

- Keys to the machines are safely protected from unauthorized use [202315.11].

- The machines are always adequately secured and bolted to the floor [202315.12].

To improve physical security of amounts collected for PhilaCor's dry cleaning and catering industry sales, we recommend ***bank deposits be made more frequently*** [202315.13].

To strengthen procedures and promote accountability over PhilaCor's **inventory of goods and supplies**, we recommend that PPS management:

- Develop and implement a perpetual inventory system for each industry shop in accordance with SAP E-7501, *Agency Inventories.* Copies of the SAP may be obtained from the city's Finance Office [202315.14].

- Establish (with the assistance of PhilaCor management) reorder points for each item in PhilaCor's inventory of finished goods for sale and/or for items used in the manufacture of these products [202315.15].

- Require independent periodic physical counts of PhilaCor's inventories in accordance with SAPs E-7611 *Mid-Year Physical Inventory* and E-7601 *End-of-Year Physical Inventory* [202315.16].

In a matter related to inventory, we recommend PhilaCor management correct its listing of equipment (personal property) by removing the excess chairs that were incorrectly recorded as equipment instead of inventory for sale [202315.17].

To reduce the risk of theft and strengthen accountability over PhilaCor's ***petty cash fund***, we recommend that:

- Monthly bank reconciliations be adequately prepared on a timely basis, and thoroughly reviewed and approved by an independent official in the PPS Administration Unit [202315.18].

- Copies of completed and approved monthly bank reconciliations with appropriate supporting documentation be maintained within the PhilaCor Administration Unit [202315.19].

- The supervisor of the Culinary Arts Program Industry Shop review food purchase receipts and compare them to the original shopping list at the time the food is received and prior to submission to the petty cash fund custodian for replenishment. The supervisor should evidence this review by signing (or initialing) and dating the receipts [202315.20].

- PhilaCor consider establishing a petty cash sub-fund to more properly account for advances provided to the Culinary Arts Program for food purchases [202315.21].

- Based on the high turnover rate of the fund, consideration be given to seeking an increase in the size of the fund [202315.22].

In connection with some of our ***other observations***, we recommend that PPS management:

- Eliminate the duplicate effort in accounting for sales and expenditure activities by exploring with the city's Finance Office opportunities for obtaining separate index codes within FAMIS for each of PhilaCor's ten industries [202315.23].

- Accurately measure PhilaCor's actual cost of operation, including, payroll and related costs of prison guards assigned to the program, as well as other costs such as overhead and the cost of goods sold and/or manufactured. Such accuracy is important not to determine profit or loss, but to measure whether the cost of the program is minimal to the taxpayers [202315.24].

- Allow PhilaCor staff ownership over the inmate hiring and selection process [202315.25].

Finally, to help ensure the PhilaCor Program accomplishes its intended mission of training inmates with transferable job skills and providing them with real life work experiences of operating in a business-like manner at minimal costs to taxpayers, we urge PPS management to provide:

- PhilaCor managers with the appropriate financial and management training so they can operate the program in a business-like environment [202315.26].

- Oversight of the program including the development of appropriate procedures, establishment of suitable policies, and periodic, but frequent reviews of financial operations [202315.27].

APPENDIX I: OBJECTIVES, SCOPE, AND METHODOLOGY

This appendix provides information on the scope of work and methodology used to assess PhilaCor's system of internal accounting controls over the safeguarding of assets and the processing of financial transactions.

The information obtained throughout this engagement was used in order to reach certain conclusions. Those steps included: performing analytical review over recorded costs of operations; receiving a tour of the PhilaCor facilities; conducting interviews with PhilaCor representatives, City of Philadelphia Finance Office representatives, PhilaCor industries shop supervisors and correctional officers; reviewing PhilaCor's internal work order system; reviewing PhilaCor's production reports and supporting records; reviewing billing, collection and receipt activities; reviewing PhilaCor's Dry Cleaning Industry Shop ticketing/accounting system; and, conducting standard internal control questionnaires.

To satisfy our objective, we interviewed PhilaCor industry shop personnel who are directly responsible for the day to day operations. These interviews included inquiries of both industries shop supervisors and correctional officers who are assigned to each of the ten PhilaCor shops, and the shipping/receiving unit. We also interviewed individuals within PhilaCor's Administrative Unit to gain an understanding of management's overall business practices, which would include the operational and financial policies currently in place. We utilized standard internal control questionnaires in the areas of cash, inventory, personal property, revenue, and expenditures. Additionally, we made material and labor inquiries per each industry shop specialty.

Additionally, we reviewed PhilaCor's revenue and expenditure activity recorded within the city's accounting system (FAMIS). We also obtained the subsidiary accounting system (QuickBooks) that is used to produce various internal financial reports; and we reviewed the Dry Cleaning Industry shop ticketing/accounting system. We examined profit and loss statements generated by QuickBooks for each of the 10 industry shops, as well as the Administrative and Shipping/Receiving Units.

We performed our work from October 2014 through August 2015 in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

PhilaCor consists of ten industry shops which include: Barricades, Culinary Arts, Dry Cleaning, General Products, Laundry, Printing, Textiles, and the Furniture Plant, which consists of the Carpentry, Finishing, and Upholstery shops. All ten shops are serviced by the Shipping and Receiving unit which operates separately and is responsible for delivery and transportation of goods sold. Below is a description of each shop.

BARRICADES

The Barricades shop manufactures one product for one department – Police Barricades for the Police Department. The barricades are made of wood and consist of two A-frames that support a center piece of lumber. They are painted blue and yellow, and when assembled are used as a means of crowd control at public events.

The shop, which is located in the former Holmesburg Prison, is staffed by one correctional officer, who guards the inmates, and one industries shop supervisor who trains them.

The Barricades shop curriculum includes instruction in the measuring and mixing of paints, and basic carpentry fundamentals, such as cutting and assembling. The stations and positions in the shop are Cutter, Assembler, and Painter. It employs on average 8 inmates and produces an average of 400 barricade components per month.

CULINARY

The Culinary Arts Program (CAP) prepares and sells hot and cold food and beverages. It has two components, catering and a lunch/deli counter named 'Hard Time Café'. The catering component serves city agencies, while the café primarily serves prison employees and visitors. The Hard Time Café is open 4 days a week, 2 of the days in the lobby of the Philadelphia Industrial Correctional Center (PICC) and 2 of the days at Curran-Fromhold Correctional Facility (CFCF).

The shop, which is located in PICC, is staffed by two correctional officers and two workshop supervisors. One correctional officer guards the inmates, while the other is responsible for picking up and delivering food. Of the two industries shop supervisors, one manages the catering operation while the other manages the Hard Time Café.

The Culinary shop curriculum trains inmates in equipment identification, hygiene and sanitation, knife skills, preparation and packaging, and food storage. It employs an average of 3 inmates and prepares, on average, 2,800 food items monthly.

DRY CLEANERS

The Dry Cleaner shop provides professional dry cleaning and pressing services. Its services are open to all City of Philadelphia employees.

The shop, which is located on the grounds of House of Correction (HOC), is staffed by one correctional officer, who guards the inmates, and one industries shop supervisor, who oversees the training of the inmates.

The Dry Cleaning shop curriculum trains inmates in counting and tagging, spot checking, unloading, pressing, hanging and bagging clothing garments. It employs an average of 20 inmates and on average dry cleans 2,400 garments monthly.

GENERAL PRODUCTS

The General Products shop cuts and hems prison bed sheets from large industrial sized rolls of polyester and cotton fabric. The shop also orders towels and washcloths in bulk and repackages them in smaller boxes for distribution in the prison. It also purchases single bed mattresses for use in the prison cell block and dormitories.

The shop, which is located on the grounds of the HOC, is staffed by two correctional officers, one who guards the inmates, and one who oversees the training of the inmates.

The General Products shop's curriculum includes training inmates in cutting, sewing, folding, boxing, labeling, as well as counting sheets and towels. It employs on average 11 inmates and produces an average of 18,400 items per month.

LAUNDRY

The Laundry shop washes inmate uniforms (blues) and jumpsuits, blankets, sheets, and towels. While its main customer is the prison, it also washes some laundry, paid by the pound, of other city departments and some non-profits.

The shop, which is located on the grounds of HOC, is staffed by two correctional officers, one who guards and trains the inmates, and the other who functions as a driver responsible for picking up and delivering laundry to various correctional centers on the prison campus. This shop also has one industries shop supervisor who oversees the training of the inmates.

The Laundry shop curriculum trains inmates on sorting, loading and unloading a washer and dryer, and using a sheet folder. It employs an average of 30 inmates on two separate shifts (a male shift in the morning and a female shift in the afternoon) and cleans an average of 121,000 pounds of laundry per month.

GRAPHICS PLANT (PRINT SHOP)

The Print shop produces a myriad of numbered multi-part forms that are utilized by city departments. The Print shop also offers photocopying as well as printing services for binders, business cards, stationery, posters, newsletters, bill stuffers, brochures, and manuals. The shop also prints custom certificates and office stamps for city agencies.

The shop is located in CFCF, and is staffed by one correctional officer to guard the inmates, and two industries shop supervisors, one of which was vacant at the time of our review, who train the inmates.

The Print shop curriculum trains inmates in offset presses used for printing, cutting, wrapping, collating, and plate making; operation of high speed copiers; and general maintenance. It employs an average of 25 inmates and prints an average of 1.95 million impressions per month.

TEXTILES

The Textiles shop produces engraved products, embroidery, silk screening, and rubber stamps. Engraved products include custom name tags and plates and wall signs for city agencies. Embroidered products include custom shirts, hats and patches.

The shop is located in PICC, and is staffed by one correctional officer who also functions as the industries shop supervisor and trains the inmates.

The Textiles shop curriculum trains inmates in loading and unloading materials, hooping, cutting, engraving, operating a silkscreen, and using embroidery machinery. It employs an average of 4 inmates daily and on average produces over 700 items monthly.

The Furniture Plant is divided into three main shops consisting of the Carpentry, Finishing and Upholstery shops. There are an average of 52 inmates who work in these shops on a daily basis.

CARPENTRY

The Carpentry shop manufactures unfinished desks, credenzas, book cases, clothing trees and custom orders. These unfinished products are transferred to the Finishing shop for finishing lacquer and completion.

The shop is located in PICC. It is staffed by one correctional officer, who guards the inmates and also involves himself with carpentry training and production, and two industries shop supervisors who train the inmates.

The Carpentry shop curriculum trains inmates as assemblers, laminators, tool room workers, drawer makers, cutters, material handlers, desktop makers, and pedestal makers. Inmates who excel at one position are trained as floaters to learn more than one position. The Carpentry shop employs an average of 16 inmates daily and produces an average of 14 completed pieces of furniture a month.

FINISHING

The Finishing shop refinishes mostly brand new furniture made in the Carpentry shop. It also refinishes some old furniture from city agencies.

The shop is located in PICC. It is staffed by one industries shop supervisor who trains inmates without a correctional officer.

The Finishing shop curriculum trains inmates in assembling and disassembling furniture, housekeeping, furniture stripping, applying stain, and using sprayers and sanders. The inmates are trained in multiple tasks. It employs an average of 14 inmates and finishes an average of 144 pieces of furniture per month.

UPHOLSTERY

The Upholstery shop upholsters brand new furniture, and re-upholsters used furniture from city agencies.

The shop is located in CFCF. It is staffed by two industries shop supervisors who train inmates without a correctional officer.

The Upholstery shop curriculum trains inmates in assembling and disassembling furniture, and measuring, framing, sewing, cutting and gluing upholstery. It employs an average of 22 inmates and upholsters an average of 90 items per month.

SHIPPING AND RECEIVING

The Shipping and Receiving unit services each workshop on an as needed basis. They are responsible for picking up, delivering, and transporting goods produced or sold by each workshop.

The Shipping and Receiving unit is located in PICC, and is staffed by one correctional officer who acts as the guard and also trains the inmates.

This unit trains inmates in delivering and transporting products to the end customers. It employs an average of two inmates who travel with the correctional officer on delivery runs.

ADMINISTRATION

The Administration unit is responsible for the proper accounting, recording, and handling of PhilaCor's financial, administrative, personnel affairs, and provides oversight and direction to all workshops.

The unit is located in PICC, and is staffed by five civilians: a director, an assistant director, an administrative specialist, and two clerks. No inmates are employed by this unit.

ORDER AND BILL

CITY OF PHILADELPHIA
OFFICE OF THE DIRECTOR OF FINANCE
GENERAL ACCOUNTING DIVISION

ORDER AND BILL NO. **D-** 18122

ENCUMBRANCE NUMBER

CHARGE RECEIVING DEPARTMENT

ELEMENT

TELEPHONE NUMBER

DATE PREPARED

KEYPUNCH SEPARATE TRANSACTION CARD FOR EACH ACCOUNT CHARGED BELOW

FUND	DEPT	ELE-MENT	OUT-PUT	CLASS	AMOUNT	CLASS	AMOUNT	PRO-GRAM
REPEAT THE ABOVE ON EACH CHARGE CARD PUNCHED								Repeat the above on Each Charge Card Punched

CREDIT 4000 ☐ **PRINT SHOP**

CREDIT 4101 *(Stores Fund)* ☐ **WAREHOUSE**

CREDIT 4200 ☐ **PRISONS**

ITEM NO.	PROCUREMENT CATALOG NO.	DESCRIPTION *(Type all entries; DOUBLE space between items to allow editing)*	SUPPLY STATUS BALANCE ON HAND	SUPPLY STATUS AVG. ISS. PER MO.	QUAN.	UNIT	UNIT PRICE	AMOUNT

DELIVERY AND SHIPPING INSTRUCTIONS

DATE SHIPPED

ACCOUNT CREDITED

FUND	DEPT.	
		→ **TOTAL**

TO THE DIRECTOR OF FINANCE AND THE CITY CONTROLLER: I hereby request the supplying agency to issue the goods or services described above in the amounts and types indicated. Upon signature of an authorized representative of the supplying agency that (1) delivery of goods has been made (2) proper prices have been charged; and (3) a properly executed receipt for the delivered supplies has been obtained, it is requested that payment be made from the account indicated hereon.

Authorized Signature for Requisitioning Agency

EXAMINED AND APPROVED

For City Controller *Date*

COMP. BY *(Finance)*

EXAM BY *(Finance)*

TO THE DIRECTOR OF FINANCE AND THE CITY CONTROLLER: I hereby certify that proper prices have been charged and that there is on file in this office a properly executed receipt, from the requistioning agency, for the supplies furnished pursuant to this Order and Bill.

Authorized Signature for Supplying Agency

AMOUNT OF LIQUIDATION

AMOUNT OF RE-ENCUMBRANCE

TO THE CITY CONTROLLER: I certify that this Order and Bill has been examined. It is proper in all respects and I hereby approve payment in the amount indicated.

Authorized Signature of Director of Finance

71-35 (Rev. 4/78)

APPENDIX IV: CASH RECONCILIATION TO MACHINE COUNTER READINGS

Token Dispensing Machine Internal Counter Movement Comparison – Dry Cleaning Facility				
Cash Collection Date	Token Machine Counter	Expected Cash to be Collected	Amount Collected Token Machine Dry Cleaner	Cash Overage or (Shortage)
03/14/2012	3,508	$3,508	$3,496	($ 12)
04/25/2012	5,419	1,911	1,922	11
06/29/2012	7,580	2,161	2,369	208
08/23/2012	9,892	2,312	2,450	138
11/06/2012	12,892	3,000	3,574	574
02/13/2013	17,276	4,384	4,943	559
05/03/2013	20,996	3,720	3,803	83
06/07/2013	23,048	2,052	1,903	(149)
08/08/2013	26,234	3,186	3,751	565
10/29/2013	30,308	4,074	5,277	1,203
12/10/2013	34,724	4,416	4,862	446
02/12/2014	39,311	4,587	4,591	4
04/15/2014	43,795	4,484	4,504	20
07/25/2014	51,078	7,283	7,388	105
11/04/2014	58,668	7,590	6,529	(1,061)
11/07/2014*	59,159	491	1,590	1,099
12/10/2014	61,972	2,813	2,815	2
Total		$61,972	$65,767	$3,795

*- to count a money bag inadvertently left inside the token machine when the previous count was performed.
Source: Office of the Controller, from the token cash log

Token Dispensing Machine Internal Counter Movement Comparison – Hard Time Café at PICC				
Cash Collection Date	Token Machine Counter	Expected Cash to be Collected	Amount Collected Token Machine Hard Time - PICC	Cash Overage or (Shortage)
03/14/2012	5,531	$5,531	$5,223	($ 308)
04/25/2012	7,194	1,663	1,662	(1)
06/29/2012	10,414	3,220	3,219	(1)
08/23/2012	15,074	4,660	4,669	9
11/06/2012	20,609	5,535	5,529	(6)
02/13/2013	25,097	4,488	4,477	(11)
05/03/2013	32,745	7,648	7,646	(2)
06/07/2013	35,115	2,370	2,355	(15)
08/08/2013	39,359	4,244	4,287	43
10/29/2013	44,020	4,661	4,644	(17)
12/10/2013	48,163	4,143	4,143	0
02/12/2014	50,560	2,397	2,397	0
04/15/2014	56,220	5,660	5,662	2
07/25/2014	63,560	7,340	7,340	0
11/04/2014	70,188	6,628	6,627	(1)
12/10/2014	72,933	2,745	2,740	(5)
Total		$72,933	$72,620	($ 313)

Source: Office of the Controller, from the token cash log

Token Dispensing Machine Internal Counter Movement Comparison – Hard Time Café at CFCF				
Cash Collection Date	Token Machine Counter	Expected Cash to be Collected	Amount Collected Token Machine Hard Time CFCF	Cash Overage or (Shortage)
06/07/2013	5,525	5,525	$5,463	($ 62)
08/08/2013	12,175	6,646	6,645	(1)
10/29/2013*	4,667	4,667	4,700	33
12/10/2013	10,233	5,566	5,566	0
02/12/2014	15,157	4,934	4,930	(4)
04/15/2014	23,648	8,491	8,507	16
07/25/2014	33,851	10,203	10,253	50
11/04/2014	42,661	8,810	8,813	3
12/10/2014	46,349	3,688	3,688	0
Total		$58,530	$58,565	$ 35

*- the counter was reset due to a machine malfunction, expected cash is an estimate
Source: Office of the Controller, from the token cash log

CITY OF PHILADELPHIA
PHILADELPHIA PRISON SYSTEM
OFFICE OF THE COMMISSIONER
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(215) 685 – 8201 FAX (215) 685 – 8577
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DR. DAMONE B. JONES, SR.
Board Chairman

LOUIS GIORLA
Commissioner

December 11, 2015

Alan Butkovitz
City Controller
1230 Municipal Services Building
Philadelphia, Pennsylvania 19102-1679

Dear Mr. Butkovitz,

Attached you will find the Philadelphia Prison System's draft response to the October 2015 Audit Report.

Once again, I would like to thank you for your assistance with this financial review of the PhilaCor Industries Program.

Sincerely,

Louis Giorla
Commissioner

LG:kmm

Attachment - 1

Cc: Stephanie Tipton, Chief Integrity Officer, Mayor's Office
Fiona Greig, Assistant to the Director of Finance, Finance Department
Rebecca Rhynhart, Budget Director, Finance Department
Bill Rubin, First Deputy Controller, Controller's Office
Konstantinos Tsakos, Audit Director, Controller's Office
Michael R. Resnick, Esquire, Director for Public Safety
Robert Tomaszewski, Deputy Commissioner, Administration
Blanche Carney, Deputy Commissioner, Restorative and Transitional Services
Gerald Buck, Administrative Services Director
Steven Brooks, PhilaCor Director

Prison's Response to PhilaCor Audit: Improvements Needed in Accounting and Operational Procedures (Dated: October 2015)

The Philadelphia Prison System wishes to thank the Office of the Controller for performing a comprehensive review of the Prisons PhilaCor Industries Program in response to our request. This assessment provides the PPS with recommendations for improvements in both operational and accounting procedures that are of considerable benefit to our organization. In reviewing the Controller's Findings and Recommendations, we offer the following response.

Controller's Findings

Billing Procedures for Goods and Services Require Improvement:

- ID Bills generally not independently reviewed and approved
- Bills for custom orders lacked documented basis for pricing
- No documented origin for catalog prices

Prison's Response

- A process is now in place to ensure independent review. All ID Bills (Invoices) will be reviewed and initialed by the PhilaCor Assistant Director and PhilaCor Director. In addition, all ID bills will require the approval of the Deputy Commissioner for Restorative and Transitional Services before final processing by the Prisons Business Office. A written policy will be drafted which outlines the approval/processing steps pertaining to processing ID Bills.
- Individual folders will be set up for all custom orders received which will include all pricing, man hours worked, and back up documentation that lists all costs associated with the order.
- A thorough review of all catalog prices will be undertaken and associated folders will be created to document origin pricing for catalog pricing.

Controller's Findings

Enhancements Necessary over the Collection of Coin and Currency from Token Dispensing Machines:

- No written procedures detailing token machine processes
- Token machine coin and currency deposited only once every two months
- Machines internal counters not used for settlement process
- Dry cleaning and café daily sales transactions not adequately accounted for

Prison's Response

- A written procedure and associated work flow chart was created by PhilaCor and distributed at the Controller's exit meeting
- Token machine coin and currency will now be collected/deposited twice a month – the first and third week of the month. A Prison's Business Office employee will be present when the assigned PhilaCor staff collect the money and deposit it into the City's account
- The token machines internal counters will be used for the settlement process. In addition, we will purchase the printing function for all coin machines in order to have a printed receipt.
- Daily item reconciliations will be conducted at both the Dry Cleaning Facility and Hard Time Café sites.

Controller's Findings

Physical Security of cash in Token Machines Require Strengthening

- Token machine key not physically secured to prevent unauthorized access to cash
- Token machine not adequately secured and bolted to floor

Prison's Response

- A lockbox was created to store the Token Machine key
- All Token machines were secured and bolted to the floor during the completion of the audit

Controller's Findings

Bank Deposits Need to be More Frequent

- Cash and checks not timely deposited

Prison's Response

- Bank deposits will be made no less than twice monthly

Controller's Findings

PhilaCor's lack of Inventory Controls Exposes it to Management and Pilferage

- An Inventory system needs to be implemented

Prison's Response

- PhilaCor has implemented a Bin Tagging Inventory System on all stock items. All inventory will be tracked with any additions or reductions (usage) recorded. PPS is in the process of procuring an automated inventory control system.

Controller's Findings

Petty Cash Funds Are at Risk for Theft

- Bank reconciliations appeared questionable
- Reconciliations not always reviewed
- Petty Cash advances highly vulnerable to theft
- High petty cash advances and turnover indicative of need for changes

Prison's Response

- Within the next 90 days, the Prison's Business Office will assume responsibility for the PhilaCor Petty Cash Fund
- All reconciliations will be reviewed by both the PhilaCor Director and the PPS Fiscal Officer
- Cash advances will be minimized as much as possible. All cash advances to vendors will require a review and approval by a Deputy Prisons Commissioner with all supporting documentation attached.
- PhilaCor will solicit the services of a local commercial grocer in order to minimize cash advances to vendors.

Controller's Findings

Other Observations

- PhilaCor's profit and loss accounting for each industry is not relevant to its mission
- PhilaCor's program costs are not all inclusive
- PhilaCor managers are not adequately involved with inmate selection

Prison's Response

- PhilaCor's primary mission is to function as a training center for inmates so that when they reenter society they have a viable skill that can provide gainful employment. Its purpose is not to operate for profit. Any revenues generated are used to offset the cost of operating PhilaCor.
- Separate index codes for each PhilaCor industry will be created and all costs will be monitored to determine the expense and income of the individual PhilaCor shops (e.g. printing and Upholstery)
- PhilaCor staff are included in the process of hiring inmate workers. Shop supervisors will communicate their needs as well as the performance expectations of inmate workers to the Social Work Supervisor conducting work assignments. Assigned inmate workers will be evaluated by the shop supervisors and will be reassigned if they fail to achieve the recommended levels of proficiency.

Controller's Findings

Philcor Managers Skilled in Their Crafts, But Need Business Training

- Although PhilaCor managers are experts in their respective crafts and have risen to the ranks of shop supervisors, they lack the financial skills of operating a business.

Prison's Response

- PPS shall seek the assistance of the National Correctional Industries Association to ensure that PhilaCor's managers have the necessary financial skills training to operate a business as well as to train inmate workers

Controller's Findings

Prison Management Needs to Provide More Oversight of Philcor to Ensure Program Effectiveness

- As part of the audit we observed that PPS management had not provided the necessary oversight to ensure the effective operation of the PhilaCor Program.

Prison's Response

- A monthly meeting has been initiated to review PhilaCor's operations and financial records. The PhilaCor Director, Assistant Director and the Prisons Administrative Officer will attend.
- A record of the meeting (minutes) will be transmitted to the Deputy Commissioner for Administration and the Deputy Commissioner for Restorative and Transitional Services.

CONTROLLER'S OFFICE CONTACT AND STAFF ACKNOWLEDGEMENTS

City Controller's Office Contact	Bill Rubin, First Deputy City Controller, (215) 686-6696, bill.rubin@phila.gov
Staff Acknowledgements	In addition to the individual named above, Gerald Micciulla, Post Audit Deputy Controller, Konstantinos Tsakos, Audit Director, Robert Fleming, Audit Manager and Michael Regan, staff auditor contributed to this report.
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