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John Q. Hamm
COMMISSIONER

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**ADMINISTRATIVE REGULATION
NUMBER**

101

OPR: ACCOUNTING

INTERNAL AUDITS

I. GENERAL

This Alabama Department of Corrections (ADOC) Administrative Regulation (AR) establishes responsibilities, policies, and procedures applicable to internal audits of the ADOC.

II. POLICY

It is the policy of the ADOC that internal audit programs are developed and implemented by the ADOC internal audit staff for the purpose of analyzing and evaluating financial management systems and related control procedures, for the application of those systems and procedures, and for developing and recommending policies and procedures for the safeguarding of ADOC finances and resources. Internal audits are conducted in order to minimize the likelihood of fraud, theft, misappropriation, mismanagement, misuse and/or abuse of departmental resources, and inappropriate departure from established policies and procedures.

III. DEFINITION(S) AND ACRONYM(S)

- A. **CFO** – The ADOC Chief Financial Officer
- B. **GAAP** – Generally Accepted Accounting Principles

IV. RESPONSIBILITIES

- A. Each ADOC employee is responsible for the conservation and safeguarding of ADOC assets.
- B. Each employee having authority over the expenditure of ADOC funds is responsible for ensuring that funds are expended exclusively for conducting appropriate and necessary departmental business.

- C. The internal audit staff is responsible for:
1. Assessing the adequacy and effectiveness of the Department's system of internal controls, specific and inherent, applicable to the conservation and safeguarding of ADOC assets;
 2. Evaluating the operating performance of the activities reviewed by measuring compliance with established State and ADOC policy and procedures; and
 3. Providing a written report to the CFO detailing each audit, its findings, and its recommendations.
- D. Internal auditors are responsible for applying GAAP standards during their internal audits and for creating a draft and final audit report. Internal audits may be conducted by one or more internal auditors, with the assistance of internal audit staff.
- E. Wardens and Division Directors are responsible for providing the internal audit staff with complete and timely access to all facilities, records, data, files, personnel, and physical properties as the internal auditor may deem necessary.
- F. It is the responsibility of the Warden/Division Director and Business Manager to:
1. Submit a timely written response to the draft audit report;
 2. Take appropriate actions to permanently resolve the finding(s) addressed in the internal audit report;
 3. Implement recommendations made by the auditor, unless specifically exempted from implementation in writing by the Commissioner or designee. (Note: Exemptions are implicit modifications to existing policy and will not be reported as an audit finding, unless the failure to report the finding would result in a violation of applicable auditing standards.)
- G. The CFO is responsible for approving final audit reports and authorizing special audits and reviews, to include unannounced audits.

V. **PROCEDURES**

- A. This AR should in no way be construed as placing any restrictions on or otherwise inhibiting the activities of the internal audit staff. The internal audit staff may audit any items or processes related to the finances of the ADOC, whether or not specifically referenced in this AR.

B. Internal Audit Scope, Frequency, Notice, and Access to Audit Sites and Records:

1. The routine internal audit scope will cover financial and finance-related activities of all institutions, community-based facilities, warehousing facilities and other inventories maintained for the support of departmental operations. Special audits, reviews, and other investigations may be initiated by the internal audit staff, with CFO approval, and as requested or directed by ADOC Executive Staff.
2. The auditors will routinely notify the institution or Division of an impending internal audit at least twenty-four (24) hours in advance, if doing so does not compromise the purpose of the audit.
3. Unannounced audits, reviews, and inspections may also be appropriate and necessary. Some routine audits and/or special investigations may require that the internal auditors arrive at an institution or Division without prior notice being given to the personnel subject to the internal audit. However, at the discretion of the internal auditor, the internal audit staff may coordinate these events with the Warden or Division Director.
4. Internal auditors are specifically authorized to make unannounced visits to institutions and Divisions in order to perform cash counts, inventory counts, or other necessary audit procedures. The ability to apply this practice is contingent upon unimpeded access to the materials and areas the auditors need to evaluate. Institution/Division personnel are expected to allow the auditors entry into the premises as expeditiously as possible.

C. Internal Audit Scheduling:

1. Internal audit scheduling is contingent upon available resources and internal audit staff.
2. Internal audit staff is to audit institutions, work release centers, and community-based facilities approximately twice per year. Warehousing facilities will be subject to review approximately once per year. Additional audits and reviews may be conducted at any time and at any frequency as determined to be appropriate by the CFO or as requested or directed by ADOC Executive Staff.
3. As resources allow, special audits will be conducted in conjunction with the resignation, retirement, termination, or transfer of the Warden or Business Manager to another agency. Transfers within the ADOC do not warrant special audits.

4. Other audits related to personnel changes may be considered, depending upon the circumstances surrounding the change.

D. Organizational Status:

1. The internal audit staff report to the CFO.
2. To ensure objectivity and independence, the auditors assigned to conduct an audit:
 - a. Must not have been directly responsible for activities subject to review;
 - b. Must not have had direct authority over activities subject to review; and
 - c. Must not have been participants in activities subject to review.

E. Methodology:

1. The auditor will evaluate compliance with existing departmental policy, procedures, rules and regulations, applicable state and federal laws, and GAAP considered pertinent to the review.
2. Within the practical limits of available resources, the internal auditor will apply GAAP standards. Tests of accounting transactions and other pertinent audit procedures and techniques will be performed according to established internal audit programs and procedures.
3. Testing of accounting events and transactions will be performed by applying procedures designed to detect errors and discrepancies. All transactions may not be reviewed. Therefore, no presumption should be made that material errors do not exist in the untested records.
4. Upon completion of fieldwork, the auditor will conduct an exit conference with the Warden/Division Director.

F. Internal Audit Reports and Responses:

1. Upon completion of an audit, the auditor will provide a draft audit report to the Warden/Division Director to allow for a response.
2. A response is to be submitted to the internal auditor by the Warden/Division Director within fifteen (15) days of receiving the draft audit report. The response is to include a brief summary and

timeline of any corrective measures taken, or to be taken. A description of any extenuating circumstances may also be included when doing so would be helpful in explaining the cause of any findings. It is also appropriate to include an explanation of any findings and/or recommendations with which there is disagreement.

3. Following receipt of the response from the Warden/Division Director, the auditor will submit a final audit report to the CFO and include a copy of the audit response from the Warden/Division Director. If an audit response includes any misstatement of facts as understood by the auditor, a clarification by the auditor may also be included as an attachment to the final audit report.
4. The internal audit process concludes with the approval and release of the final audit report by the CFO. The reporting of significant audit findings satisfies the responsibilities of the internal auditor. The CFO will distribute the final audit report to the Commissioner, Chief Deputy Commissioner, the appropriate Deputy Commissioner of Men's and Women's Services, the appropriate Regional Director, the facility Warden, and Accounting Staff as determined by the CFO.

VI. DISPOSITION

Any forms used will be disposed of and retained according to the Departmental Records Disposition Authority (RDA).

VII. FORMS

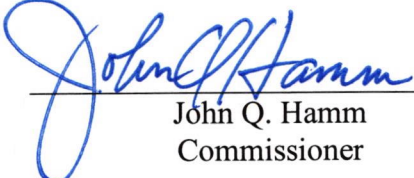
There are no forms prescribed in this regulation.

VIII. SUPERSEDES

This Administrative Regulation supersedes AR 101, *Internal Audits*, July 26, 1993, and any changes.

IX. PERFORMANCE

- A. Code of Alabama 1975, Section 14-1-8,
- B. *ADOC Manual of Accounting Procedures.*



John Q. Hamm
Commissioner