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# **FINAL CLOSE-OUT** FIRST FOLLOW-UP INTERNAL CONTROL AUDIT:

# SHERIFF-CORONER **INMATE WELFARE FUND AND** SELECTED JAIL COMMISSARY PROCESSES

AS OF DECEMBER 31, 2012

Our First Follow-Up Audit found that the Sherifffully implemented recommendations from our original audit report dated May 16, 2012.

During the original audit period, the Sheriff-Coroner's Inmate Welfare Fund had \$3.5 million in revenues and \$4.4 million in expenditures.

> **AUDIT NO: 1227-A ORIGINAL AUDIT No. 1123**

REPORT DATE: MARCH 27, 2013

Director: Dr. Peter Hughes, MBA, CPA, CIA Deputy Director: Eli Littner, CPA, CIA

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#### **RISK BASED AUDITING**

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

AlCPA American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management









GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

**Providing Facts and Perspectives Countywide** 

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OC Fraud Hotline (714) 834-3608

# Letter from Dr. Peter Hughes, CPA





Audit No. 1227-A March 27, 2013

**TO:** Sandra Hutchens Sheriff-Coroner

FROM: Dr. Peter Hughes, CPA, Director

Internal Audit Department

**SUBJECT:** First and Final Close-Out Follow-Up Audit:

Sheriff-Coroner Inmate Welfare Fund and Selected Jail Commissary Processes.

Original Audit No. 1123, Issued May 16, 2012

We have completed a First Follow-Up Audit of Sheriff-Coroner Inmate Welfare Fund and Selected Jail Commissary Processes. Our audit was limited to reviewing, as of December 31, 2012, actions taken to implement the **seven (7) recommendations** from our original audit. We conducted this First Follow-Up Audit in accordance with the *FY 12-13 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our First Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Because satisfactory corrective action has been taken for the seven recommendations, this report represents the final close-out of the original audit.

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

Other recipients of this report are listed on the OC Internal Auditor's Report on page 5.

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Audit No. 1227-A March 27, 2013

TO: Sandra Hutchens

Sheriff-Coroner

FROM: Dr. Peter Hughes, CPA, Director,

Internal Audit Department

SUBJECT: First and Final Close-Out Follow-Up Audit:

Sheriff-Coroner Inmate Welfare Fund & Selected Jail Commissary Processes,

e Hughes

Original Audit No. 1123, Issued May 16, 2012

### Scope of Review

We have completed a First Follow-Up Audit of Sheriff-Coroner Inmate Welfare Fund and Selected Jail Commissary Processes. Our audit was limited to reviewing actions taken, as of December 31, 2012, to implement the **seven (7) recommendations** from our original audit report.

### Background

We conducted an Internal Control Audit of Sheriff-Coroner's Inmate Welfare Fund and Selected Jail Commissary Processes, which included an evaluation and testing of internal controls and compliance with Sheriff-Coroner and County policies, and evaluating process efficiencies and effectiveness. During the audit period, the Sheriff-Coroner Inmate Welfare Fund had \$3.5 million in revenues and \$4.4 million in disbursements.

The original audit identified **four (4) Significant Control Weakness** and **three (3) Control Findings** concerning reconciliations of inmate accounts; declining fund balances available; price determinations of commissary merchandise; enhancing written procedures for Jail Commissary profit transfers and operating reserves; segregating Jail Commissary inventory duties and enhancing Jail Commissary order forms.

### **Results**

Our First Follow-Up Audit indicated that the Sheriff-Coroner fully implemented all seven (7) recommendations. As such, this report represents the final close-out of the original audit. Based on our First Follow-Up Audit, the following is the implementation status of the seven (7) original recommendations:

### 1. Inmate Cash Receipts Not Recorded/Reconciled to General Ledger

(Significant Control Weakness) Sheriff-Coroner evaluate their inmate cash receipting process to determine the feasibility of recording the receipt of cash and money orders for inmate accounts in the General Ledger, and preparing reconciliations between the subsidiary inmate account balances recorded in the Automated Jail System to the General Ledger.

<u>Current Status:</u> **Implemented.** The original audit found the Sheriff-Coroner did not fully reconcile inmate account balances recorded in the Automated Jail System (AJS) to the County General Ledger. A portion of the inmate monies were maintained in a trust fund where the balance did not fluctuate, and some inmate deposits were maintained at the jail cashiering locations and were not recorded and reconciled to the General Ledger.



The Sheriff-Coroner evaluated the recording of inmate deposits in the General Ledger and concluded it was <u>not</u> feasible to record this activity on a daily basis. Instead, the Sheriff-Coroner maintains AJS subsidiary ledgers and reconciles inmate deposits on a daily basis to them. On a quarterly basis, an adjustment is made to reconcile the entire AJS account to the General Ledger.

Our Follow-Up Audit noted that a year-end adjusting entry was made in July 2012 to record and reconcile all inmate deposits in the General Ledger. Starting in October 2012, Sheriff-Coroner staff prepare quarterly reconciliations between the AJS subsidiary inmate account balances recorded to the General Ledger. We found the first quarterly reconciliation was performed for October 2012, and all adjusting entries were proper and supported. Because the Sheriff-Coroner evaluated the inmate cash receipting process and took appropriate action to record and reconcile all inmate deposits, we consider this recommendation implemented.

### 2. <u>Inmate Welfare Fund: Declining Fund Balance Available</u>

(Significant Control Weakness) Sheriff-Coroner take necessary steps to address the decreasing Fund Balance Available level for the Inmate Welfare Fund. The Sheriff-Coroner should also establish written policy and procedures over administration of the Inmate Welfare Fund, specifically addressing actions to take for a declining fund balance available.

<u>Current Status</u>: **Implemented**. Since the original audit, the following factors were noted that had a positive impact on the Inmate Welfare Fund's Fund Balance Available:

- Due to anticipated retirements and staff promotional/job opportunities, salaries were projected to be reduced by \$800,000 between FY 10/11 and FY 11/12.
- Due to the contract with Immigration and Customs Enforcement (ICE) and the rising number AB109 inmates, there has been a 20% increase in jail population between FY 10/11 and FY 11/12, which generates more commissary sales and telephone revenue that will increase the Inmate Welfare Fund balances.
- Fund Balance Available (FBA) transfers have decreased over the past three years.
  A significant reduction in the use of FBA was noted after the original audit.

The Sheriff-Coroner recently created a Fund Balance Available procedure. The procedure states that the "Division Director shall periodically review the revenue and expenditure reports and the projected or actual FBA for the year. In years of declining FBA, the Director shall review the circumstances to determine the reason for decline. In some years, the decline will be intentional as projects and purchases are planned. In years of unintentional decline, the Director shall take any action necessary."

Since the Sheriff-Coroner has taken steps to address the decreasing Fund Balance Available, and since policies and procedures were created that discuss actions to take for a declining Fund Balance Available, we consider this recommendation implemented.

### 3. Jail Commissary Fund: Declining Fund Balance Available

(Significant Control Weakness) Sheriff-Coroner take necessary steps to address the decreasing Fund Balance Available for the Jail Commissary Fund. The Sheriff-Coroner should also establish written policy and procedures over administration of the Jail Commissary Fund, specifically addressing actions to take for a declining fund balance available.



<u>Current Status:</u> **Implemented.** Since the original audit, the same factors noted above in Finding #2 had a positive impact on the Jail Commissary Fund's Fund Balance Available:

- Salaries were projected to be reduced \$800,000 between FY 10/11 and FY 11/12.
- The jail population increased 20% between FY 10/11 and FY 11/12.
- The Jail Commissary Fund's Fund Balance Available significantly increased between FY 10/11 and FY 11/12. The FBA increased from \$785,000 to \$1.4 million.

As discussed in Finding #2 above, the Sheriff-Coroner recently created a Fund Balance Available procedure. The procedure states that the "Division Director shall periodically review the revenue and expenditure reports and the projected or actual FBA for the year. In years of declining FBA, the Director shall review the circumstances to determine the reason for decline. In some years, the decline will be intentional as projects and purchases are planned. In years of unintentional decline, the Director shall take any action necessary."

Since the Sheriff-Coroner has taken steps to address the decreasing Jail Commissary Fund Balance Available, policies and procedures were created that discuss actions to take for a declining Fund Balance Available, and the FBA has increased since the original audit, we consider this recommendation implemented.

### 4. <u>Determination of Sales Prices for Commissary Merchandise</u>

(Significant Control Weakness) Sheriff-Coroner evaluate the process used to establish the sales price for commissary merchandise. This evaluation should address the calculation of sales taxes, comparing prices with related entities, and determining if a cost-volume-revenue analysis would be beneficial in managing the jail commissary cost structure.

<u>Current Status:</u> **Implemented.** The Sheriff-Coroner evaluated the process used to establish sales prices for commissary merchandise and decided to keep their current process of determining fair market value instead of using other methods, such as cost-volume-revenue analysis. Our Follow-Up Audit noted that commissary merchandise sales prices were adjusted in January 2013. The Commissary utilizes an ongoing evaluation process to determine fair market value by comparing prices with related entities, factoring in overhead costs, and calculates sales taxes where appropriate to help establish reasonable sales prices. Because the Sheriff-Coroner evaluated the process used to establish prices, and the evaluation addressed the calculation of sales taxes and comparing prices with related entities, we consider this recommendation implemented.

5. No Written Policies and Procedures for Jail Commissary Profit Transfers and Use of Operating Reserves (Control Finding) Sheriff-Coroner establish written policies and procedures governing the administration, uses and methodologies over jail commissary profit transfers and operating reserves.

<u>Current Status:</u> **Implemented.** In July 2012, the Sheriff-Coroner established a *Policy and Procedure for Jail Commissary Profit Transfer.* The policy discusses how revenues/profits are examined to determine what portion of Jail Commissary profit can be transferred to the Inmate Welfare Fund. Once a fiscal year end "state of the budget" is determined by Inmate Services management, the amount of profit transfer is determined.



The Sheriff-Coroner recently created a *Fund Balance Available* procedure. The procedure discusses how Jail Commissary profit is administered. It states that, "at the end of the third quarter of each fiscal year, the FBA will be reviewed against the current fiscal year's budgeted appropriations, plus one additional year's target balance. If the FBA meets or exceeds the target balance, then all profits up to that point will be transferred to the Inmate Welfare Fund." The procedure also states that "the Director establishes a target balance for the reserves."

Because the Sheriff-Coroner established policies and procedures governing the administration, uses and methodologies over jail commissary profit transfers and operating reserves, we consider this recommendation implemented.

### 6. Commissary Physical Inventory Duties are Not Segregated (Control Finding)

Sheriff-Coroner evaluate the jail commissary physical inventory process and segregate the duties over custody, access, record-keeping, reconciliations, and performing physical inventories to the extent possible.

<u>Current Status:</u> **Implemented.** The Sheriff-Coroner revised the Jail Commissary inventory process to utilize staff that are not associated with the duties involving ordering, receiving, stocking, paying invoices and/or have the ability to manipulate the item quantity or any data in the inventory system. If any adjustments of a questionable nature are found, the Administrative Manager II over the Jail Commissary will be notified and will handle any needed adjustments.

Our Follow-Up Audit found that staff conducted an inventory in December 2012. Storekeepers have custody and access to the inventory records. However, to ensure duties were adequately segregated, front office clerical staff at the Jail Commissary conducted the inventory. Variances noted in the inventory were adjusted by an Administrative Manager II in the Jail Commissary. Because the inventory duties were segregated, we consider this recommendation implemented.

### 7. Enhancement of Jail Commissary Order Forms (Control Finding)

Sheriff-Coroner evaluate revising jail commissary order forms to include different languages for any substantial number of non-English speaking inmates, and to include a disclaimer that inmate funds will be charged to the inmate's trust account for purchases of commissary merchandise.

<u>Current Status:</u> **Implemented.** Sheriff-Coroner Inmate Services Division management evaluated revising the forms to include different languages and determined it would <u>not</u> be financially and operationally feasible at this time. The Jail Commissary order form was modified to include a disclaimer that "all purchases for Commissary products will be paid out of the inmates account." Since the Sheriff-Coroner evaluated revising Jail Commissary order forms to include different languages, and the form was modified to include the requested disclaimer, we consider this recommendation implemented.

We appreciate the assistance extended to us by Sheriff-Coroner staff during our Follow-Up Audit. If you have any questions, please contact me directly at 834-5475 or Michael Goodwin, Senior Audit Manager at 834-6066.



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