



Chesterfield County, Virginia Internal Audit

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GREG L. AKERS
Director

DATE: December 7, 2017

TO: Joseph P. Casey, Ph.D.
County Administrator

FROM: Greg L. Akers
Director of Internal Audit

A handwritten signature in cursive script, appearing to read "Greg", is positioned to the right of the "FROM:" field.

SUBJECT: FY17 Jail Canteen and Inmate Trust Fund Audit

The Office of Internal Audit completed an audit of Jail Canteen and Inmate Trust Fund, and the final report is attached.

We would like to thank Sheriff Karl Leonard, Captain Tony Dowdy, Erica Balk, Dawn Garrett, and Kimberly Ritchey for their cooperation and assistance during this audit.

Attachment

Copy: Karl Leonard, Sheriff
Captain Tony Dowdy, Sheriff's Office
Erica Balk, Budget Administrator, Sheriff's Office
Scott Zaremba, Deputy County Administrator
James F. Lane, Ed.D., School Superintendent
Audit and Finance Committee



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FY17 Jail Canteen and Inmate Trust Fund

December 7, 2017



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December 2017

Highlights

Internal Audit Report to the Board of Supervisors/School Board

Internal Audit conducted this review as part of our FY18 audit plan approved by the Administrator, Superintendent, and the Audit and Finance Committee.

Jail Canteen and Inmate Trust Fund is an annual audit and performed as a part of the County's Comprehensive Annual Financial Report (CAFR) audit per Section 15.2-2511 of the Code of Virginia. The Sheriff's Operations Division provides canteen services to the inmates as a source of snacks and personal supplies. Monies belonging to the inmates are maintained in the Inmate Trust Fund on their behalf. These funds can be used for canteen purchases, medical co-payments, and other expenses of the inmate.

Our objectives were to:

- Evaluate compliance with the Virginia Sheriffs' Accounting Manual.
- Review and test the Jail Canteen and Inmate Trust Fund account transactions for accuracy and proper controls over receipts and disbursements.
- Review and test other Sheriff revenues for compliance to Virginia Sheriffs' Accounting Manual.
- Report the results to Management.

What We Recommend

- The Jail Canteen strengthen general bookkeeping processes. **(REPEAT FINDING)**
- Sheriff's Office document uncleared bank reconciliation transaction evaluation and resolution.
- Sheriff's Office work with the financial system vendor to create more useful reports. **(REPEAT FINDING)**
- Sheriff's Office prepare and retain inmate booking receipts for amounts deposited.



For more information, please contact
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FY17 Jail Canteen and Inmate Trust Fund



What We Found

Commendable Policies and Procedures

We commended Chesterfield County Jail staff for properly recording Sheriff revenues, indigent sales, inmate disbursements, and inmate trust fund bank reconciliations.

Financial Reporting

We noted that the Jail Canteen does not have a reliable process for closing the annual accounting period. Adjustments were needed to accounts receivable. We also noted the chart of accounts used by the canteen is not ideal for informative reporting.

Cash Disbursements

Section 3 of the Virginia Sheriffs' Accounting Manual requires that profits from canteen operation generated from inmates' accounts directly benefit inmates within the facility. Internal Audit tested canteen disbursements totaling \$11,666 that appear to be for general operations rather than to directly benefit inmates. If profits are to be used for general operations, the Sheriff's Office should obtain an appropriation through the governing body and deposit revenue from sources other than inmate accounts with the Treasurer.

Starting FY18, the Sheriff plans to deposit Jail Canteen profits used for general jail operations with the Treasurer and appropriate these funds as prescribed.

Jail Canteen Reconciliations

Section 4 of the Virginia Sheriffs' Accounting Manual outlines monthly bank reconciliation procedures. A new bank account was opened for canteen web order deposits in May 2017. We noted a bank reconciliation was not present for this new account. Performing reconciliations at month-end in accordance with the guidelines will ensure accounting and banking activity is properly recorded in a timely manner.

Starting FY18, a bank reconciliation will be performed for the new checking account created May 2017 for all web order commissions generated by external sales. Additionally, Jail Canteen has established a new revenue account in Jail Canteen's accounting system to record web order revenue.

Inmate Trust Fund Cash Receipts

Section 4 of the Virginia Sheriffs' Accounting Manual requires itemized receipt preparation for all inmate personal property and cash collected during initial inmate booking. Internal Audit tested 25 inmate booking deposits totaling \$13,581. Support verifying inmates signed for funds collected could not be located for 3 deposits. Preparing and retaining inmate booking receipts will reduce disputes relating to amounts deposited.

Management concurred with 6 of 6 recommendations to be implemented by June 30, 2018.

We appreciate the cooperation received from Sheriff's Office staff and management while conducting this audit.

INTRODUCTION

BACKGROUND

The Jail Canteen and Inmate Trust Fund audit was a regularly scheduled audit on the FY18 audit plan approved by the County Administrator, School Superintendent, and the Audit and Finance Committee. This audit is performed annually as a part of the County's Comprehensive Annual Financial Report (CAFR) audit, per Section 15.2-2511 of the Code of Virginia. Internal Audit test results are provided to the external auditor for their separate agreed upon procedures report for Sheriff's internal controls in accordance with Virginia Auditor of Public Accounts specifications.

The Jail Canteen falls under the Sheriff's Operations Division and provides inmates with a source of snacks and personal supplies through a contracted vendor. The Jail Canteen Fund receives a 20% commission on goods sold.

The Inmate Trust Fund is comprised of funds held on behalf inmates during their time in custody. At the time of incarceration, any monies belonging to the inmates are entered into the inmate account system and deposited into the Inmate Trust Fund account on their behalf. Inmates may also receive funds from outside sources (family and friends) which are deposited into the inmate's account. These funds can be used for canteen purchases, medical co-payments, and other expenses of the inmate. Family and friends may also purchase items online for inmate consumption.

The following chart represents FY17 Jail Canteen and Inmate Trust Fund cash activity:

Fund	Balance as of 6/30/16	Additions	Deductions	Balance as of 6/30/17
Jail Canteen	\$ 278,805	\$ 97,371	\$ 140,352	\$ 235,824
Inmate Trust Fund	21,488	733,458	723,443	31,503

OBJECTIVES

Objectives of the audit were to:

- Evaluate the Jail Canteen and Inmate Trust Funds for compliance with the Virginia Sheriffs' Accounting Manual.
- Review and test the Jail Canteen and Inmate Trust Fund account transactions for accuracy and proper controls over receipts and disbursements.
- Review and test telephone commission, medical copayments, and other Sheriff revenues for compliance to Virginia Sheriffs' Accounting Manual.
- Report the results to Management.

SCOPE

Our audit work covered FY17 process and transactions.

We considered the following code, policies, and procedures during our audit:

Specifications for Audits of Counties, Cities, and Towns from the Virginia Auditor of Public Accounts	Virginia Sheriffs' Accounting Manual issued by the Auditor of Public Accounts
Chesterfield County Sheriff's Office Standard Operating Procedures	

We conducted this performance audit in accordance with generally accepted government auditing standards. 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. Steve Sanderson, Senior Auditor, Stephanie Bookheimer and Richard Slate, Staff Auditors, performed the audit work. Chesterfield County Internal Audit is a department within the organization of Chesterfield County/Schools.

METHODOLOGY

Detailed information regarding the methodology can be found in the individual findings listed in the report. Our methodology included the following:

- Obtaining bank confirmations and verifying bank statement reconciliations with the Sheriff's Office records.
- Testing receipts and disbursements for the Jail Canteen and Inmate Trust Fund.
- Observing and verifying jail assets purchased with canteen funds on a sample basis.
- Testing accounts receivable and payable for proper controls and accuracy.
- Testing the Sheriff's other revenues and verifying compliance with the Virginia Sheriffs' Accounting Manual.

INTERNAL CONTROL CONCLUSION

According to Government Auditing Standards, internal controls, in the broadest sense, encompass the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal controls include the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- Efficiency and effectiveness of operations;
- Accurate financial reporting; and
- Compliance with laws and regulations.

Based on the results and findings of the audit test work, auditors concluded that there are several opportunities for improvement to internal control procedures to better provide reasonable assurance to assist management in meeting its missions, goals, and objectives.

CLOSING

We would like to thank the Sheriff's Office management and staff for their cooperation and assistance during the course of this audit.

FINDINGS, RECOMMENDATIONS, RESPONSES

Commendations

(Point Sheet PS.5)

CRITERIA:

The Virginia Sheriffs' Accounting Manual, published by the State Auditor of Public Accounts (APA), outlines the procedures for Jail Operations and Court Support Services.

CONDITIONS:

Testing in the areas noted below was completed with immaterial, if any, findings noted:

Jail Canteen

- 4 weeks of indigent and canteen sales were reviewed. All inmate accounts were charged properly and accurate commission payments were received and traced to the bank statements.
- 12 of 12 deposit transactions tested were made timely and were properly approved.

Inmate Trust Fund

- 25 of 25 inmate disbursements tested had proper approval, adequate documentation, and traced to bank statements.
- A monthly bank reconciliation was performed and reviewed.
- 2 of 2 bank reconciliations tested were accurate, agreed book and bank balance to the general ledger and bank statement, and outstanding items traced to subsequent bank statements.

Other Jail Operations and Court Support Services

- 2 of 2 monthly telephone transactions tested were properly recorded, commissions were accurately paid by vendor, and used for appropriate purposes.
- 40 of 40 inmate medical co-payments tested were accurate, medical slips were signed by inmate/canteen officer and medical staff, fees were used for appropriate purposes, and checks written from inmate's accounts were for proper amount.
- 50 of 50 other revenue (DNA, monitoring, weekend jail time, work release, jail processing, advertising, and reimbursement fees) transactions tested were accurate and recorded completely and revenues were used for appropriate purposes.
- 15 of 15 civil processing fees tested have accurate service fees, deposits made within seven days, and funds remitted to state.

CAUSE:

Chesterfield County Jail staff followed effective internal control policies and procedures during the period.

EFFECT:

Chesterfield County Jail staffs' effective and efficient management of public assets helps the County reach its goal of being a model for excellence in government.

COMMENDATION:

We commend the staff of the Chesterfield County Jail for properly recording indigent sales, inmate disbursements, inmate trust fund bank reconciliations, and transactions for other jail operations.

FINDINGS, RECOMMENDATIONS, RESPONSES

Financial Reporting

(Point Sheet PS.1)

CRITERIA:

The accrual method of accounting requires that revenues be recognized when earned.

Per Section 2 of the Virginia Sheriffs' Account Manual, accounting records may take many forms including an automated system. Entries must be accurate, timely, and supported by other means of documentation.

The County Accounting Department produces a Consolidated Annual Financial Report (CAFR) to summarize County financial activity. The Jail Canteen and Inmate Trust Fund are reported in the CAFR as agency funds. The Sheriff's Office is responsible for reporting beginning balance, additions, deductions, and ending balance for assets and liabilities annually to Accounting.

CONDITIONS:

We tested all FY17 vendor commission statements and FY17 bank statements to determine if the Jail Canteen had received revenues as expected per contract requirements. Several commission checks amounting to \$9,585 were not received until FY18. An accrual entry for \$6,663 made to the Jail's accounting system did not include \$2,922 for certain commissions receivable at June 30, 2017.

Checking account cash and commission revenue were understated by \$10,865 in the accounting records. A new bank account was created for web order revenues. Instead of recording revenue deposit entries in accounting system for new account, decreased cash in existing checking account. The cumulative errors were being carried on the checking account reconciliation since May 2017.

The Inmate Trust Fund uses a separate accounting system (Lockdown) provided by the canteen services vendor (CBM) to record financial transactions. Internal Audit determined that reports generated from the Lockdown system included assets and liabilities belonging to CBM in addition to the Inmate Trust Fund information that is the responsibility of the Sherriff's Office. The system reports also included voided deposits that complicated the reconciliation process.

The Sherriff's Office did not provide Inmate Trust Fund activity to the Accounting Department for financial reporting within 31 days after fiscal year-end.

FINDINGS, RECOMMENDATIONS, RESPONSES

Financial Reporting (Continued)

(Point Sheet PS.1)

CAUSES:

- The Sherriff's Office process does not ensure fiscal year revenue is accurate for revenue earned.
- Jail Canteen did not use the proper deposit process when recording revenues in the Jail's accounting system.
- CBM accounting system does not distinguish vendor activity from Jail Inmate Trust Fund activity.
- The Sherriff's Office does not have a process to ensure fiscal year revenue and expenses are accurate for reporting Jail Canteen and Inmate Trust Fund activity to the Accounting Department.

EFFECTS:

- Commission revenue and accounts receivable were understated by \$2,922.
- Cash and commission revenue were understated by \$10,865.
- Current Lockdown system reporting does not clearly reflect Jail Inmate Trust Fund activity as separate from vendor activity.
- There are delays in providing required financial activity for CAFR reporting to the Accounting Department.

ACTIONS TAKEN:

Sheriff's Office is creating a new revenue account in Jail Canteen's accounting system for FY18 to record web order revenue that will separately account for revenue that can be used for general operations.

FINDINGS, RECOMMENDATIONS, RESPONSES

Financial Reporting (Continued)

(Point Sheet PS.1)

RECOMMENDATIONS:

1. We recommend the Jail Canteen strengthen procedure to ensure that accurate journal entries are made for revenue (such as commissions) items that should be accrued at year-end. **(repeat finding from report dated 1/12/17)**
2. We recommend Jail Staff work on general bookkeeping practices including:
 - Chart of accounts design
 - Documented periodic (at least quarterly) review of balances and financial activity for reasonableness
 - Year-end accrual process
 - Compiling required information for the County's CAFR within 31 days after fiscal year-end**(repeat finding from report dated 1/12/17)**
3. We recommend Jail staff work with CBM to construct reports that present only Inmate Trust Fund information. **(repeat finding from report dated 1/12/17)**

MANAGEMENT'S RESPONSE(S):

1. *Concur. Dawn Garrett, Accountant, is responsible for implementing 12/31/17. In October 2017, Ms. Garrett began taking over the reconciliation process for Canteen. She will be doing the audits and making year-end accruals as needed.*
2. *Concur. Dawn Garrett, Accountant, was responsible for implementing 10/31/17. In October 2017, Ms. Garrett began taking over the reconciliation process for Canteen. She will be doing the audits and making year-end accruals as needed. The year-end accrual for Canteen commissions will be made based on the June report to CBM.*
3. *Concur. Dawn Garrett, Accountant is responsible for implementing 6/30/18. Note on this recommendation we are completely at the mercy of CBM and have had no success in separating the warehouse from the rest of Lockdown to date. We continue to request separating their warehouse from our Lockdown account.*

FINDINGS, RECOMMENDATIONS, RESPONSES

Cash Disbursements

(Point Sheet PS.2)

CRITERIA:

Per Section 3 of the Virginia Sheriffs' Accounting Manual, net profits from canteen operations that are generated from the inmates' accounts must benefit the inmates within the facility. Profits may be used for: education services, recreation services, library services, indigent inmate care, inmate hygiene and medical equipment, and counseling and pastoral care services. Any other profits (i.e. sales not paid from inmate's accounts) may be used for the general operation of the Sheriff's Office; however, these funds must first be deposited with the Treasurer and appropriated by governing body as required by Section 15.2-2506 of the Code of Virginia.

In order to ensure accountability, a sound system of internal control should include documentation of review or verification. Per Section 2 (Internal Controls) of the Virginia Sheriffs' Accounting Manual, "good controls protect not only the organization but the individual employee as well."

CONDITIONS:

Jail Canteen:

The Jail Canteen had \$139,910 in FY17 expenditures. Internal Audit tested 25 disbursements totaling \$40,428. 5 of 25 disbursements totaling \$11,666 appear to be for the Jail's general operation. Items purchased included linens, cleaning equipment and products, and toiletries which have previously been obtained through appropriated County operating funds. All 5 exceptions occurred prior to June 2017.

These direct purchases from Canteen funds do not qualify as directly benefiting inmates as stipulated in the Sheriffs' Accounting Manual and Code of Virginia. As noted in criteria, it is allowable to use certain Jail Canteen profits for general operating costs. However, that would require:

- Separately accounting for Canteen revenue from inmate accounts versus outside sources, and
- Depositing funds with the Treasurer and appropriated as required by Virginia Code Section 15.2-2506.

Inmate Trust Fund:

We reviewed FY17 Voided Checks and FY17 Check Register to determine the reasonableness of all voided checks. For voided checks, we determined if they were properly maintained and that the signature block was removed.

CAUSE:

Sheriff has implemented a strategy to utilize accumulated Jail Canteen profits, which reduces reliance on appropriated operating funds.

FINDINGS, RECOMMENDATIONS, RESPONSES

Cash Disbursements (Continued)

(Point Sheet PS.2)

EFFECT:

Using Jail Canteen profits for general jail operations without an expenditure appropriation does not comply with the Code of Virginia.

ACTIONS TAKEN:

Most Jail operational expenditures were transferred to the general fund in March 2017 subsequent to FY16 audit. The Sheriff's Department contacted County Budget in June 2017 to request a FY18 appropriation. Starting FY18, the Sheriff plans to deposit certain Jail Canteen profits used for general jail operations with the Treasurer and appropriate these funds as prescribed. County Budget and Accounting created the new Sheriff Department budget key in October 2017 to use web revenues for Jail operational expenditures.

FINDINGS, RECOMMENDATIONS, RESPONSES

Reconciliations

(Point Sheet PS.3)

CRITERIA:

Per Section 3 of the Virginia Sheriffs' Accounting Manual, all Jail Canteen bank accounts should be reconciled monthly between the general ledger and the bank statement to ensure that the accounting records properly include all transactions. Also, Sheriff's Office management and the reconciler should review and sign each reconciliation.

CONDITIONS:

We tested the Jail Canteen's reconciliations to ensure they were performed monthly, signed by the preparer, and reviewed by Sheriff's Office management. We also verified that Sheriff's Office management reviewed the bank statements. Our testing revealed the following:

- The Jail Canteen has three bank accounts: a general checking account used for internal inmate sale commissions, a savings account, and a new checking account created May 2017 for all web order commission revenue generated by external sales (Fresh Express and CBM Cares).
- Reconciliations and bank statements present during audit were signed by management. But there is no indication that the reconciliation process is functioning as intended based on review of uncleared transactions older than 180 days.
 - As of June 30, 2017:
 - § General checking reconciliation is carrying \$36,510 for multiple outstanding adjustments, with \$27,668 older than 352 days.
 - § General checking reconciliation is carrying \$27,870 for deposits in transit/adjustments older than 242 days.
 - These uncleared adjustments offset each other and represent non-cash transactions.
 - A \$202 journal entry to adjust for FY16 duplicate bank charge was created and cleared during September 2016 bank reconciliation, leaving the original June 2016 journal entry as an uncleared transaction.
- A reconciliation is not being performed for the new web order checking account.
- The canteen savings account reconciled to accounting records without exception.

CAUSES:

- Adjusting journal entries are not always cleared prior to the bank reconciliation process.
- Sheriff's Office staff does not prepare bank reconciliations that agree to monthly bank statement for all Jail Canteen accounts.

FINDINGS, RECOMMENDATIONS, RESPONSES

Reconciliations (Continued)

(Point Sheet PS.3)

EFFECTS:

- Not clearing adjustments timely for items identified on the reconciliation increases complexity for future reconciliations.
- Without the preparation of a monthly bank reconciliation, there is no way to ensure all accounting activity or bank activity has been recorded and that the balance at period end is accurate.

ACTIONS TAKEN:

Starting FY18, a bank reconciliation will be performed for the new checking account created May 2017 for all web order commissions generated by external sales. Additionally, reconciliations and year-end accruals have been assigned to the Sheriff's accountant to improve segregation of duties between daily operations, financial reporting, and reconciliation procedures.

RECOMMENDATIONS:

We recommend Sheriff Office strengthen bank reconciliation process to:

4. Clear all adjustments timely for identified reconciling items.
5. Document uncleared transaction evaluation and resolution.

MANAGEMENT'S RESPONSE(S):

4. *Kim Ritchey, Principal Clerk, is responsible for implementing 12/31/17. Ms. Ritchey clears the balances and this is audited by Ms. Garrett as noted in point 1.*
5. *Kim Ritchey, Principal Clerk, is responsible for implementing 12/31/17. Ms. Ritchey clears the balances and this is audited by Ms. Garrett as noted in point 1.*

FINDINGS, RECOMMENDATIONS, RESPONSES

Cash Receipts

(Point Sheet PS.4)

CRITERIA:

Per Section 4 of the Virginia Sheriffs' Accounting Manual, state code (6VAC15-40-790) requires itemized receipt preparation for all inmate personal property and cash collected during initial inmate booking. A copy should be provided to the inmate whose account is being credited and cash should be deposited timely.

CONDITION:

We reviewed 25 Inmate Trust Fund deposits totaling \$13,581 to verify inmates signed for funds collected, funds were deposited timely (within 7 days), and receipts were posted to correct inmate. For 3 of 25 deposits tested, totaling \$4,273, the corresponding property sheet receipts could not be located.

CAUSE:

Property sheets were not available for all inmates during intake.

EFFECT:

Not retaining receipts leaves the Jail vulnerable to disputes relating to amounts deposited.

RECOMMENDATION:

We recommend the Sheriff's Office:

6. Strengthen inmate booking process to ensure an itemized property receipt is prepared for each new inmate.

MANAGEMENT'S RESPONSE(S):

6. *Concur. Tony Dowdy, Captain, was responsible for implementing 11/30/17. These receipts are produced; however, we were not noting when there were reasons they could not be completed, or could not be signed (such as with an intoxicated inmate). We will document all reasons for non-completion from this point forward. Our standard operating procedure was changed to reflect this and staff notified.*