



## Chesterfield County, Virginia Internal Audit

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**GREG L. AKERS**  
Director

**DATE:** January 12, 2017

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

**FROM:** Greg L. Akers  
Director of Internal Audit

**SUBJECT:** Jail Canteen and Inmate Trust Fund Audit

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

We would like to thank Sheriff Karl Leonard, Major Benjamin Craft, Captain James Pritchett, Captain Eric Jones, Erica Balk, and Kimberly Ritchey for their cooperation and assistance during this audit.

Attachment

Copy: Karl Leonard, Sheriff  
Major Benjamin Craft, Jail Administrator  
Captain Eric Jones, Sheriff's Office  
Scott Zaremba, Deputy County Administrator



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# Jail Canteen and Inmate Trust Fund

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January 12, 2017

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## **INTRODUCTION**

### **BACKGROUND**

The Jail Canteen and Inmate Trust Fund audit was a regularly scheduled audit on the FY17 audit plan approved by the County Administrator and School Superintendent. The Jail Canteen and Inmate Trust Fund 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. 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.

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 FY16 Jail Canteen and Inmate Trust Fund cash activity:

<b>Fund</b>	<b>Balance as of 6/30/15</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance as of 6/30/16</b>
Jail Canteen	\$ 340,116	\$ 78,366	\$ 139,677	\$ 278,805
Inmate Trust Fund	32,695	641,341	652,548	21,488

### **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 the County Administrator.

### **SCOPE**

Our audit work covered FY16 processes 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, 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 C-1.5)

#### **CRITERIA:**

The Virginia Sheriffs' Accounting Manual, published by the State Auditor of Public Accounts (APA) outlines the procedures for operating Jail Canteen and Inmate Trust Funds.

#### **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, and 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 deposits tested were deposited timely, posted to the correct inmate accounts, and supported with inmate signatures.
- 25 of 25 inmate disbursements tested had proper approval, adequate documentation, and traced to bank statements.

#### **CAUSE(S):**

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

#### **EFFECT(S):**

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(S):**

We commend the staff of the Chesterfield County Jail for properly recording sales, inmate deposits, and inmate disbursements.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Cash Disbursements

(Point Sheet C-1.3)

#### **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.

#### **CONDITION(S):**

The Jail Canteen had \$145,285 in FY16 expenditures. Internal Audit tested 25 disbursements totaling \$27,515. 15 of 25 disbursements totaling \$17,294 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.

We are uncertain these direct purchases from Canteen funds 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.

#### **CAUSE(S):**

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

#### **EFFECT(S):**

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

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Cash Disbursements

(Point Sheet C-1.3 Continued)

#### RECOMMENDATION(S):

We recommend the Sheriff's Office:

1. Obtain a legal opinion that direct disbursement of Canteen funds for jail operating costs is allowable, or appropriate through the governing body and deposit related revenue with the Treasurer.
2. Consider modifying the accounting system to track revenues that may be used for general operations separately from those that must be used for the benefit of the inmate. This would provide future flexibility to appropriate certain Canteen profits for other Sheriff's operating cost.

#### MANAGEMENT'S RESPONSE(S):

1. *Do not concur. Sheriff Karl Leonard responded: The "VIRGINIA SHERIFFS' ACCOUNTING MANUAL states ..."net profits from canteen operations that are generated from the inmates' accounts must benefit the inmates within the facility. For example, some purchases the net profits may be used for including: education services; recreation services; library services; indigent inmate care; inmate hygiene...". We believe we are 100% compliant with this definition as provided. No action is planned at this time; however, we are considering seeking a legal opinion.*
2. *Do not concur. Sheriff Karl Leonard responded: At this time no changes to our accounting system is planned as we intend to use all canteen funds to benefit the inmates per the guidance set forth in the Virginia Sheriffs' Accounting Manual, not to supplement general operating funds.*

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Financial Reporting

(Point Sheet C-1.2)

#### **CRITERIA:**

The accrual method of accounting requires that revenues be recognized when earned, and expenses be recognized when incurred.

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. Sometimes, additional monthly reconciliations may be needed to ensure that automated system balances agree to source documents.

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.

#### **CONDITION(S):**

We tested all FY16 vendor commission statements and FY16 bank statements to determine if the Jail Canteen had received revenues as expected per contract requirements. During our review, several commission checks amounting to \$5,655 were determined to have been earned, but were not received until FY17. No accrual entry was made to the Jail's accounting system to record the commission receivable in FY16.

We reviewed the accounting records for the Jail Canteen and noted that the balance in accounts payable remained unchanged from the prior year (\$5,479 for FY15 and FY16). Further research revealed that a disbursement made in satisfaction of the payable was incorrectly recorded as a current year expense. Additionally, the payment of an outstanding receivable of \$2,775 due from the Sheriff's Office at June 30, 2015 was recorded as revenue in FY16 instead of satisfaction of the receivable.

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 Sheriff's Office.

#### **CAUSE(S):**

The Sheriff's Office does not have a process to ensure fiscal year revenue and expenses are accurate for revenue earned and expenses incurred.

CBM accounting system does not distinguish vendor activity from Jail Inmate Trust Fund activity.

The Sheriff'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.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Financial Reporting

(Point Sheet C-1.2 Continued)

#### **EFFECT(S):**

Not accruing the accounts receivable caused commission revenue and accounts receivable to be understated by \$5,655.

Recording the Sheriff's Office accounts receivable collection as revenue caused Jail Canteen accounts receivable and revenue to be overstated by \$2,775.

Current Lockdown system reporting does 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.

#### **ACTION(S) TAKEN:**

On August 30, 2016, the Principal Account Clerk forwarded support confirming that they corrected accounts payable and accounts receivable balances at June 30, 2016.

#### **RECOMMENDATION(S):**

3. We recommend the Jail Canteen establish a procedure to ensure that journal entries are made for both revenue (such as commissions) and expense items that should be accrued at year-end **(repeat finding from report dated 11/20/15)**.
4. We recommend Jail staff work with the Accounting Department 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 **(repeat finding from report dated 11/20/15)**
5. We recommend Jail staff work with CBM to construct financial reports limited to the Jail's Inmate Trust Fund activity.

#### **MANAGEMENT'S RESPONSE(S):**

3. *Concur. Kim Ritchey, Principle Account Clerk, is responsible for implementing by 12/31/16. Our accounting software is in the process of being configured to ensure that journal entries are separated for revenue and expenses.*
4. *Concur. Kim Ritchey, Principle Account Clerk, is responsible for implementing by 12/31/16. Kim Ritchey will work with the accounting department to ensure our accounting software is configured so that reports capture specific information required for the county's Comprehensive Annual Financial Report.*
5. *Concur. Kim Ritchey, Principle Account Clerk, is responsible for implementing by 12/31/16. Kim Ritchey is working with CBM to ensure that no commissary activity is reflected in our reporting and that financial reports only include Jail Inmate Trust Fund activity.*

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Inmate Trust Fund Reconciliations

(Point Sheet C-1.1)

#### **CRITERIA:**

Per Section 4 of the Virginia Sheriffs' Accounting Manual, the Inmate Trust Fund should be reconciled monthly between the checkbook and the bank statement to ensure that the accounting records properly include all transactions.

#### **CONDITION(S):**

We tested the Inmate Trust Fund'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:

- Reconciliations and bank statements were reviewed by management.
- Sheriff's Office staff currently reconciles their cash account weekly based on activity reports downloaded from the bank's website. However, no reconciliations provided agreed to the month-end bank statement balance at June 30, 2016.

#### **CAUSE(S):**

Sheriff's Office staff prepares reconciliations periodically (weekly) during the month to bank balances online. However, Sheriff's Office staff did not prepare a bank reconciliation that agreed to the monthly bank statement for June 30, 2016 for the current Inmate Trust Fund account.

#### **EFFECT(S):**

Without the preparation of a full 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.

#### **COMMENDATION(S):**

We commend the Sheriff's Office for having a process for reviewing bank reconciliations and statements.

#### **RECOMMENDATION(S):**

6. Per the Sheriffs' Accounting Manual, we recommend Sheriff's Office staff reconcile month-end bank statement for all accounts to month-end financial system balances (**repeat finding from report dated 11/20/15**).

#### **MANAGEMENT'S RESPONSE(S):**

6. *Concur. Kim Ritchey, Principle Account Clerk, is responsible for implementing by 12/31/16. Kim Ritchey is developing a process that ensures each monthly bank statement agrees with the Inmate Trust Fund account balance.*

## FINDINGS, RECOMMENDATIONS, RESPONSES

### **Fixed Assets** (Point Sheet C-1.4)

#### **CRITERIA:**

Per Section 3 of the Virginia Sheriffs' Accounting Manual, net profits from canteen operations may be used to purchase convenience items (such as coffee makers, televisions, etc.) for the benefit of inmates. Jail staff record purchases using a fixed asset list which lists item, brand, serial number, date purchased, date installed, location, and date disposed, if applicable. Quarterly, the quartermaster uses this information to verify fixed asset list accuracy.

#### **CONDITION(S):**

We selected 8 new asset purchases from the Jail Canteen QuickBooks general ledger to verify existence on fixed asset listing. We also selected 4 new asset purchases from the fixed asset listing and tested all 12 for existence in the Jail.

Our results were as follows:

- 7 of 8 item purchases selected from the general ledger were not located on June 30, 2016 fixed asset schedule.
- 1 of 4 items listed on the fixed asset listing was listed incorrectly.
- 3 of 12 fixed asset items were not physically located during existence testing.

#### **CAUSE(S):**

A procedure is not in place to ensure all purchases are entered on fixed asset listing.

#### **EFFECT(S):**

Fixed asset list is incomplete and inaccurate.

**ACTION(S) TAKEN:** As of November 14, 2016, all fixed assets have been located by Jail staff. The fixed asset list is now complete and accurate.

#### **RECOMMENDATION(S):**

7. We recommend the Jail Canteen improve process for ensuring asset purchases are recorded on fixed asset list for inventory tracking.

#### **MANAGEMENT'S RESPONSE(S):**

7. *Concur. Captain Eric Jones, Division Commander, is responsible for implementing by 12/31/16. New inventory tracking system has been implemented and Standard Operating Procedures have been revised to reflect those revisions.*