



Chesterfield County, Virginia Internal Audit

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DATE: November 2, 2018

TO: Joseph P. Casey, Ph.D. Chesterfield County
County Administrator Board of Supervisors

Mervin B. Daugherty, Ed.D. Chesterfield County
Superintendent School Board

FROM: Greg L. Akers 
Director of Internal Audit

SUBJECT: FY18 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, Major James Pritchett, John Colligan, Dawn Garrett, and Kimberly Ritchey for their cooperation and assistance during this audit.

Attachment

Copy: Karl Leonard, Sheriff
Major James Pritchett, Jail Administrator, Sheriff's Office
Captain Eric K. Jones, Sheriff's Office
John Colligan, Chief of Administrative Services, Sheriff's Office
Scott Zaremba, Deputy County Administrator



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FY18 Jail Canteen and Inmate Trust Fund

November 2, 2018



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FY18 Jail Canteen and Inmate Trust Fund

Highlights

Financial Reporting

The Sheriff's Office does not have a reliable process for reporting Jail Canteen fiscal year financial activity to the Accounting Department (**repeat finding**). Beginning balances were incorrect because prior year audit adjustments were not recorded by staff. In addition, year-end audit adjustments were identified for unrecorded accounts receivable, prepaid asset, and accounts payable. We also noted Jail Canteen transactions were not recorded in the accounting system in a timely manner. The Jail Canteen and Inmate Trust Fund are reported in the County's financial statements as agency funds.

Recommendation: Strengthen financial reporting procedures, supervision, and training.

Cash Disbursements

Jail Canteen and Inmate Trust Fund did not consistently follow disbursement procedures. 25 Jail Canteen disbursements were tested, noting that 2 payments lacked vendor invoices and another lacked invoice supervisory approval. 25 Inmate Trust Fund disbursements were tested, noting 1 payment did not include supervisory approval or inmate signature on the check stub or withdrawal receipt.

Recommendation: Consistently maintain disbursement documentation and enforce approval requirements.

Fixed Assets

The Jail Canteen failed to record a software purchase on their asset listing and lacked supporting invoices for 2 of 10 fixed asset additions tested.

Recommendation: Improve procedures to identify and maintain support for fixed asset additions.

Reconciliations

Bank reconciliations were performed and reviewed for both the Jail Canteen and Inmate Trust accounts, but staff failed to record adjusting entries for the general Canteen bank account (**repeat finding**). General checking account reconciliation adjustments (12 items, ~\$55,000) originating between June 2015 and May 2017 were not posted in the accounting system.

Recommendation: Record adjustments for identified bank reconciling items in a timely manner.

Cash Receipts

The Sheriff's Office did not maintain documentation for 2 of 25 tested Inmate Trust intake receipts (**repeat finding**). They also corrected a receipt posting error through a disbursement (i.e. check) to the proper account, rather than voiding the original entry.

Recommendation: Maintain documentation for inmate intake, and update policies and procedures for correcting account posting errors.

Compliance and Other Revenue

For items tested, the Sheriff's Office's properly managed and complied with other revenue requirements.

Management concurred with 12 of 12 recommendations detailed in the report to be implemented from 11/5/18 to 2/1/19. Internal Audit performs annual follow-up with management to confirm implementation status.

INTRODUCTION

BACKGROUND

The Jail Canteen and Inmate Trust Fund audit was a regularly scheduled audit on the FY19 audit plan approved by 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.

Monies collected from inmates at incarceration 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 FY18 Jail Canteen and Inmate Trust Fund cash activity:

Fund	Balance as of 6/30/17	Additions	Deductions	Balance as of 6/30/18
Jail Canteen	\$235,824	\$112,326	\$104,190	\$243,960
Inmate Trust Fund	\$31,503	\$818,492	\$817,880	\$32,115

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 FY18 and the current operating environment. We considered the following code, policies, and procedures during our audit:

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

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. Chris Meade, Senior Auditor, Sandra Fuentes and Christian Wingfield, 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 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. Recommendations specific to improving these controls can be found in detail further in the audit report.

CLOSING

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

FINDINGS, RECOMMENDATIONS, RESPONSES

Financial Reporting

(Point Sheet 1)

CRITERIA:

The accrual method of accounting requires that revenues be recognized when earned and expenses be reported when incurred, not when the cash is received or paid.

Per Section 2 of the Virginia Sheriffs' Accounting Manual, accounting records must be accurate, recorded timely, agree to supporting documentation, and have evidence of supervisory review.

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 reviewed the Jail Canteen and Inmate Trust Fund FY18 trial balance to verify beginning balances to the FY17 audited financial statements. The Jail Canteen FY18 beginning balances were incorrect because prior year audit adjustments were not recorded by staff. In addition, year-end audit adjustments were identified for unrecorded accounts receivable, prepaid asset, and accounts payable.

The Jail Canteen uses QuickBooks to record financial transactions.

We tested:

- 12 deposits for timeliness, proper approval, and agreement to source documentation. A \$6,135 deposit was not recorded into QuickBooks in a timely manner (21 days).
- 12 monthly vendor commission statements and FY18 bank statements to determine if the Jail Canteen had received revenues as expected per contract requirements. No accrual entry was made to the Jail's accounting system for \$9,046 FY18 commission revenue received after fiscal year-end.
- Checks cleared in July and August 2018 to verify expenditures were recorded in the proper fiscal year.
 - A \$5,000 June expense should have been recorded as a prepaid asset at June 30, 2018.
 - A \$2,020 August payment for June services was not recorded as an account payable.
 - FY19 financial activity was not recorded in QuickBooks until mid-September 2018.

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. The system reports also included voided deposits that complicated the reconciliation process.

FINDINGS, RECOMMENDATIONS, RESPONSES

Financial Reporting

(Point Sheet 1)

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

CAUSES:

- The Sheriff's Office process does not ensure ending fiscal year balances are accurate and agree to CAFR balances.
- The Sheriff's Office process does not ensure fiscal year balances 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 supervisory review process to ensure financial activity is recorded into QuickBooks in a timely manner.
- The Sheriff's Office does not have a supervisory review process to ensure Jail Canteen and Inmate Trust Fund activity reporting to the Accounting Department occurs at fiscal year end.
- Sheriff's Office personnel are not trained for recording or supervising QuickBooks activity.

EFFECT(S):

- Delays in recording prior year adjustments results in inaccurate financial data.
- Commission revenue and accounts receivable were understated by \$9,046.
- Prepaid expenses were understated, and expenses were overstated by \$5,000. Additionally, expenses and accounts payable were understated by \$2,020.
- Current Lockdown system reporting does not clearly reflect Jail Inmate Trust Fund activity as separate from vendor activity.
- Providing required financial activity for CAFR reporting to the Accounting Department is delayed.
- Jail Canteen financial transactions are not recorded timely in the QuickBooks financial system.

RECOMMENDATION(S):

We recommend Sheriff's Office:

1. Ensure that QuickBooks ending balances agree to CAFR ending balances by posting adjusting journal entries recommended by Internal Audit.
 2. Strengthen procedure to ensure that accurate journal entries are made for revenue (i.e. commissions) and expense items that should be accrued at year-end. **(repeat finding from report dated 12/7/2017 and 1/12/2017)**
 3. Improve 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 12/7/2017 and 1/12/2017)**
-

FINDINGS, RECOMMENDATIONS, RESPONSES

Financial Reporting

(Point Sheet 1)

4. Collaborate with CBM to construct financial reports that present only Inmate Trust Fund information. (**repeat finding from report dated 12/7/2017 and 1/12/2017**)
5. Strengthen procedure to ensure that financial activity is recorded in QuickBooks in a timely manner.
6. Provide training for certain personnel tasked with recording and supervising QuickBooks activity.

MANAGEMENT'S RESPONSE(S):

1. *Concur. Principal Account Clerk (PAC) is responsible for implementing November 5, 2018. Standard Operating Procedure (SOP) has been revised to reflect this as a responsibility of PAC.*
2. *Concur. PAC is responsible for implementing November 5, 2018. SOP has been revised to reflect this as a responsibility of PAC.*
3. *Concur. PAC is responsible for implementing November 5, 2018. SOP has been revised to reflect this as a responsibility of PAC.*
4. *Concur. Jail Administrator is responsible for implementing February 1, 2019. The Sheriff's Office is working with CBM to modify inventory procedures to simplify their financial reporting.*
5. *Concur. Chief of Administrative Services is responsible for implementing November 5, 2018. We will provide more supervisory oversight that is familiar with the specific financial activity entries.*
6. *Concur. Chief of Administrative Services is responsible for implementing February 1, 2019. Hiring for a more qualified candidate for this position is being conducted. A backup will continue to be assigned to this position to fill in when the primary person is not working. SOP will continue to be updated to reflect specific responsibilities moving forward. Supervision of accounting duties will now fall to Support Services.*

FINDINGS, RECOMMENDATIONS, RESPONSES

Cash Disbursements

(Point Sheet 2)

CRITERIA:

Per Section 3 of the Virginia Sheriffs' Accounting Manual, the accountant should compare the vendor invoices with the receiving reports and approve the invoice by either signing or initialing it. In lieu of a separate receiving report, canteen personnel may write the quantity on the vendor's invoice. They should sign the invoice before sending it to the Sheriff's Office for payment. The facility director or other approved person should review the vendor invoice with the receiving report. The Facility director or his designee should approve the invoice by either signing or initialing it before paying the vendor.

Per Section 4 of the Virginia Sheriffs' Accounting Manual, state code (6VAC15-40-810), Inmate property and funds shall be returned upon release or transfer and receipted for by the inmate in writing. When funds are dispersed to the inmate, a supervisory signature and an inmate signature are required for documentation purposes.

CONDITION(S):

Jail Canteen:

The Jail Canteen had \$102,467 in FY18 expenditures. Internal Audit tested 25 disbursements (\$19,390):

- 2 disbursements (\$3,000 and \$500) were made without supporting vendor invoices. Payments were processed based on Sheriff's Office email requests.
- 1 invoice (\$437) did not include evidence of supervisory approval.

Inmate Trust Fund:

Internal Audit tested 25 FY18 Inmate Trust Fund disbursements (\$12,857):

- 1 disbursement (\$406) did not include evidence of supervisory approval or a signature of the inmate on check stub or withdrawal receipt.

CAUSE(S):

Jail Canteen and Inmate Trust Fund did not consistently use the proper disbursement process when recording cash disbursements.

EFFECT(S):

Inconsistent processing and supervisory approval could result in improper disbursements.

RECOMMENDATION(S):

We recommend the Sheriff's Office:

7. Ensure supporting vendor invoices with supervisory approval exist for all Jail Canteen disbursements.
8. Ensure all Inmate Trust Fund disbursements document supervisor approval and inmate signature when funds are released.

FINDINGS, RECOMMENDATIONS, RESPONSES

Cash Disbursements

(Point Sheet 2)

MANAGEMENT'S RESONSE(S):

7. *Concur. PAC is responsible for implementing November 5, 2018. SOP has been revised to reflect this as a specific responsibility of the PAC.*
8. *Concur. PAC is responsible for implementing November 5, 2018. SOP has been revised to reflect this as a specific responsibility of the PAC.*

FINDINGS, RECOMMENDATIONS, RESPONSES

Fixed Assets

(Point Sheet 3)

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. The Sheriff's Office records 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 9 new asset additions from the Jail Canteen fixed asset list to agree to purchase support. We also selected 1 asset purchase from disbursements to trace to the fixed asset list. We tested all 10 for physical existence.

Our results were as follows:

- The supporting invoices for purchases of a television and a printer were not available.
- A software purchase was not recorded as a fixed asset.
- A DVD player's actual serial number did not agree to the fixed asset list.

CAUSE(S):

The policies and procedures meant to ensure all fixed asset purchases are accurately entered on the fixed asset list were not followed.

EFFECT(S):

Inventory listing is incomplete and inaccurate.

RECOMMENDATION(S):

We recommend the Sheriff's Office:

9. Improve procedures to identify and maintain support for fixed asset additions.

MANAGEMENT'S RESPONSE(S):

9. *Concur. PAC is responsible for implementing November 5, 2018. SOP has been revised to reflect this as a specific responsibility of the PAC.*

FINDINGS, RECOMMENDATIONS, RESPONSES

Reconciliations

(Point Sheet 4)

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.

CONDITION(S):

Jail Canteen:

The Jail Canteen has three bank accounts: a general checking account used for internal inmate sale commissions, a savings account, and a checking account for all web order commission revenue generated by external sales (Fresh Express and CBM Cares). We tested that the Jail Canteen's reconciliations to bank statements were performed monthly, signed by the preparer, and reviewed by Sheriff's Office management. Our testing revealed the following:

- Reconciliations were performed and reviewed timely. However, general checking account reconciliation adjustments (12 items, ~\$55,000) originating between June 2015 and May 2017 were not posted.
- The canteen savings account and web order commission account reconciled to accounting records without exception.

Inmate Trust Fund:

The Inmate Trust Fund has one checking account. We tested that the Inmate Trust Fund's reconciliations to bank statements were performed monthly, signed by the preparer, and reviewed by Sheriff's Office management. We also reviewed outstanding checks for possible unclaimed property remittance to the State Treasurer. Our testing revealed that reconciliations were performed and reviewed timely, and unclaimed property was submitted to the State Treasurer.

CAUSE(S):

Jail Canteen reconciliation adjustments were not posted in the accounting system.

EFFECT(S):

Not recording identified reconciliation adjustments increases complexity for future reconciliations and reflects inaccurate financial data.

RECOMMENDATION(S):

We recommend the Sheriff's Office:

10. Record adjustments for identified reconciling items in a timely manner. (**repeat finding from report dated 12/7/17**)

MANAGEMENT'S RESPONSE(S):

10. PAC is responsible for implementing November 5, 2018. SOP has been revised to reflect this as a specific responsibility of the PAC.

FINDINGS, RECOMMENDATIONS, RESPONSES

Cash Receipts

(Point Sheet 5)

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.

The Sheriff's Office has a Standard Operating Procedures Manual detailing the inmate intake process and how to perform certain tasks.

CONDITION(S):

We tested 25 Inmate Trust Fund deposits totaling \$13,796 to verify inmates signed for funds collected, funds were deposited timely (within 7 days), and receipts were posted to correct inmate. Our testing found:

- A property receipt could not be located for a \$21 deposit.
- A deposit slip could not be located for a \$167 deposit. This deposit was posted to the incorrect inmate's account and the error was identified by staff. Instead of voiding and reposting the entry, a check was written and deposited to the correct inmate's account.

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.

CAUSE(S):

Property receipts and deposit documentation were not available for all deposits. There are no policies or procedures for correcting inmate account posting errors.

EFFECT(S):

Missing documentation leaves the Sheriff's Office vulnerable to disputes over amounts deposited. A lack of policies and procedures for correcting errors leaves the Sheriff's Office vulnerable to disputes related to inmate's accounts

RECOMMENDATION(S):

We recommend the Sheriffs' Office:

11. Ensure that itemized property receipts are prepared during the inmate intake process and supporting documentation is maintained. **(repeat finding from report dated 12/7/2017)**
12. Update their policies and procedures manual with detail for correcting account posting errors.

MANAGEMENT'S RESPONSE(S):

11. *Concur. Shift Supervisors are responsible for implementing November 5, 2018. SOP has been revised to reflect that property sheets be completed each time money is submitted into the kiosk, regardless of any extenuating circumstance.*
12. *Concur. Shift Supervisors are responsible for implementing November 5, 2018. SOP has been revised to reflect that money erroneously placed into the wrong inmate account must be voided and reposted to the correct account to ensure the transaction is properly documented.*

FINDINGS, RECOMMENDATIONS, RESPONSES
Compliance and Other Revenue
(Point Sheet 6)

CRITERIA:

The Virginia Sheriffs' Accounting Manual outlines the accounting procedures for Jail Operations and Court Support Services. The manual also provides guidance on compliance with the Code of Virginia, which outlines the fees, medical co-payments, and other revenue requirements.

Per Code of Virginia § 53.1-91, each sheriff shall collect from the counties of the Commonwealth, other than the county for which he is elected, the reasonable costs of guarding, feeding, clothing, caring for and furnishing medicine and medical attention for prisoners held for such county to be determined by agreement with the governmental unit involved, or in the absence of such agreement, as shall be determined by the governing body of his county.

CONDITION(S):

Internal Audit obtained statements of revenues for various fees collected by the Sheriff's department. We selected various samples to verify accuracy, completeness, and compliance of revenues. Our testing revealed the following:

- 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.
- 25 of 25 civil processing fees tested had accurate service fees, deposits made within seven days, and funds remitted to state.
- 50 of 50 other revenue (DNA, monitoring, weekend jail time, work release, jail processing, advertising, reimbursement fees, and Henrico inmate housing fees) transactions tested were accurate and recorded completely and revenues were used for appropriate purposes.
- Chesterfield and Henrico County Sheriffs' Offices have a Memorandum of Understanding (MOU) outlining each organization's responsibilities for housing Henrico inmates in the Chesterfield County Jail.

CAUSE(S):

The Sheriff's Office followed effective internal control policies and procedures for telephone commissions, medical co-payments, civil processing fees, and other revenue.

EFFECT(S):

The Sheriff's Office's properly managed and complied with other revenue requirements.