

Internal Audit Department

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INTERNAL CONTROL AUDIT:

SHERIFF-CORONER INMATE WELFARE FUND AND SELECTED JAIL COMMISSARY PROCESSES

For the Period July 1, 2010
through June 30, 2011

We audited internal controls and processes over the administration and use of the Sheriff-Coroner's Inmate Welfare Fund. Specifically, we audited fund receipts and disbursements to ensure they are valid, supported, timely, and made in accordance with California Penal Code Section 4025, and with County and Sheriff-Coroner policies and procedures. We also assessed the effectiveness and efficiency of administering the Inmate Welfare Fund. In addition, we audited selected controls and processes over Jail Commissary funds and operations because profits from the Jail Commissary are a revenue source for the Inmate Welfare Fund. During the audit period, the Inmate Welfare Fund had \$3.5 million in revenues and \$4.4 million in expenditures.

Our audit found that internal controls and processes over Inmate Welfare Fund receipts and disbursements are adequate and effective to ensure they are valid, timely, supported and in compliance with the Penal Code and County policies. However, we found where improvement is needed over the administration of the Inmate Welfare Fund and Jail Commissary Fund, specifically involving reconciliations of inmate accounts, declining fund balances available, price determinations of commissary merchandise, commissary order forms and physical inventories. We identified **four (4) Significant Control Weaknesses** and **three (3) Control Findings** where controls and processes can be further enhanced. The Sheriff-Coroner agreed with the findings and recommendations.

AUDIT NO: 1123
REPORT DATE: MAY 16, 2012

Director: Dr. Peter Hughes, MBA, CPA, CIA
Deputy Director: Eli Littner, CPA, CIA
Senior Audit Manager: Michael Goodwin, CPA, CIA
Audit Manager: Michael Dean, CPA, CIA
Audit Manager: Kenneth Wong, CPA, CIA

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RISK BASED AUDITING

Dr. Peter Hughes **Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF, CGMA**
Director
Certified Compliance & Ethics Professional (CCEP)
Certified Information Technology Professional (CITP)
Certified Internal Auditor (CIA)
Certified Fraud Examiner (CFE)
Certified in Financial Forensics (CFF)
Certified in Financial Forensics (CFF)
Chartered Global Management Accountant (CGMA)

E-mail: peter.hughes@iad.ocgov.com

Eli Littner **CPA, CIA, CFE, CFS, CISA**
Deputy Director
Certified Fraud Specialist (CFS)
Certified Information Systems Auditor (CISA)

Michael Goodwin **CPA, CIA**
Senior Audit Manager

Alan Marcum **MBA, CPA, CIA, CFE**
Senior Audit Manager

Autumn McKinney **CPA, CIA, CISA, CGFM**
Senior Audit Manager
Certified Government Financial Manager (CGFM)

Hall of Finance & Records

12 Civic Center Plaza, Room 232
Santa Ana, CA 92701

Phone: (714) 834-5475

Fax: (714) 834-2880

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Transmittal Letter



Audit No. 1123 **May 16, 2012**

TO: Sandra Hutchens
Sheriff-Coroner

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: Internal Control Audit: Sheriff-Coroner
Inmate Welfare Fund and Selected
Jail Commissary Processes

We have completed an Internal Control Audit of the Sheriff-Coroner Inmate Welfare Fund and Selected Jail Commissary Processes for the period July 1, 2010 through June 30, 2011. We performed this audit in accordance with our *FY 2011-12 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors. Our final report is attached for your review.

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). Our **first Follow-Up Audit** will begin at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **second Follow-Up Audit** will begin at six months from the release of the first Follow-Up Audit report, by which time **all** audit recommendations are expected to be addressed and implemented. At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

We have attached a **Follow-Up Audit Report Form**. Your agency should complete this template as our audit recommendations are implemented. When we perform our first Follow-Up Audit six months from the date of this report, we will need to obtain the completed document to facilitate our review.

Each month I submit an **Audit Status Report** to the BOS where I detail any critical 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.

As always, the Internal Audit Department is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendations. Additionally, we will request your department complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

ATTACHMENTS

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 6.



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Sheriff-Coroner Inmate Welfare Fund and
Selected Jail Commissary Processes
Audit No. 1123*

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Audit No. 1123

May 16, 2012

TO: Sandra Hutchens
Sheriff-Coroner

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: Internal Control Audit: Sheriff-Coroner Inmate Welfare Fund and
Selected Jail Commissary Processes

Audit Highlight

Under the *California Penal Code* Section 4025, the Inmate Welfare Fund is mandated to provide services essential for the benefit, welfare, and educational needs of inmates confined in detention facilities.

The Sheriff-Coroner's Inmate Services Division administers the Inmate Welfare Fund and Jail Commissary operations. Profits from jail commissary operations are one revenue source of the Inmate Welfare Fund. Disbursements from the Inmate Welfare Fund are used to provide inmate support services, and educational, vocational, and recreational programs to foster rehabilitation and reduce recidivism.

Our audit found that controls over receipts and disbursements from the Inmate Welfare Fund are effective to ensure compliance with the Penal Code and with County and Sheriff-Coroner policies and procedures. We made **seven (7) findings and recommendations** to strengthen controls and processes.

OBJECTIVES

In accordance with our *FY 2011/2012 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors, we conducted an Internal Control Audit of the Sheriff-Coroner Inmate Welfare Fund and Selected Jail Commissary processes related to the administration of the Inmate Welfare Fund. Our audit was conducted in conformance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. The objectives of our audit were to:

1. Evaluate adequacy of internal controls to ensure Inmate Welfare Fund receipts are recorded completely, accurately and in accordance with California Penal Code Section 4025 and with County and Sheriff-Coroner policies and procedures.
2. Evaluate the adequacy of internal controls to ensure Inmate Welfare Fund disbursements are valid, supported, timely, and made in accordance with California Penal Code 4025, and with County and Sheriff-Coroner policies and procedures.
3. Determine if the administration of the Inmate Welfare Fund and selected Jail Commissary processes is efficient and effective (e.g., no duplication of work, backlogs, manual processes that could benefit from automation, adequacy of fund policies and procedures).

RESULTS

Objective #1: Our audit found that Inmate Welfare Fund receipts were recorded completely, accurately and in compliance with applicable laws and regulations. We identified **one (1) Significant Control Weakness** regarding recording and reconciling all inmate cash receipts.

Objective #2: Our audit found that Inmate Welfare Fund disbursements were accurate, valid, adequately supported, processed timely, properly recorded, and in compliance with management's directives and applicable laws and regulations. No findings were identified under this objective.

Objective #3: Our audit found there were no backlogs, duplication of work or manual processes that could be automated; however, we identified areas where the administration and certain processes over the Inmate Welfare Fund and Jail Commissary should be enhanced. We identified **three (3) Significant Control Weaknesses** and **three (3) Control Findings** involving declining fund balances, pricing determination of commissary items, commissary order forms and physical inventory controls.

OC Internal Auditor's Report



The following table summarizes our findings and recommendations for this audit. See further discussion in the *Detailed Results, Findings, Recommendations and Management Responses* section of this report. See *Attachment A* for a description of Report Item Classifications.

Finding No.	Finding Classification - (see Attachment A)	Finding and Page No. in Audit Report	Recommendation	Concurrence by Management?
1.	Significant Control Weakness	Inmate Cash Receipts Not Recorded/Reconciled to General Ledger (pgs. 8-9)	Evaluate the inmate cash receipting process to determine the feasibility of recording all inmate cash monies upon receipt and preparing reconciliations of inmate accounts.	Yes
2.	Significant Control Weakness	Inmate Welfare Fund: Declining Fund Balance Available (pgs.11-12)	Take necessary steps to address the decreasing Fund Balance Available level for the Inmate Welfare Fund and establish written policies and procedures.	Yes
3.	Significant Control Weakness	Jail Commissary Fund: Declining Fund Balance Available (pg. 13)	Take necessary steps to address the decreasing Fund Balance Available level for the Jail Commissary Fund and establish written policies and procedures.	Yes
4.	Significant Control Weakness	Determination of Sales Prices for Commissary Merchandise (pg.14)	Evaluate the process used to establish the sales price for commissary merchandise.	Yes
5.	Control Finding	No Written Policies and Procedures for Jail Commissary Profit Transfers and Use of Operating Reserves (pgs. 15-16)	Establish written policies and procedures governing the administration, uses and methodologies over jail commissary profit transfers and for operating reserves.	Yes
6.	Control Finding	Commissary Physical Inventory Duties Are Not Segregated (pg. 17)	Evaluate the jail commissary physical inventory process and segregate the duties to the extent possible.	Yes
7.	Control Finding	Enhancement of Jail Commissary Order Forms (pgs. 17-18)	Evaluate revising jail commissary order forms for non-English speaking inmates, and include a disclaimer that inmate funds will be charged to the inmate's trust account.	Yes



BACKGROUND

The mission of the Sheriff-Coroner is to protect the residents of Orange County and provide exceptional law enforcement services with leadership, integrity and respect. The Sheriff-Coroner has four major "commands" or divisions – (1) Field Operations & Investigative Services Command; (2) Custody and Court Services Command; (3) Professional Services Command; and (4) Administrative Services Command. The Inmate Services Division, which oversees and administers the Inmate Welfare Fund and Jail Commissary, is under the Custody and Court Services Command. The Administrative Services Command and Financial/Administrative Services provide financial support to the department.

Inmate Services Division Overview

The Inmate Services Division, established in 2004, contains 200 professional staff, 2 sworn staff and 1,100 volunteer staff. The Inmate Services Division's annual budget is approximately **\$37 million**. The division assures inmate needs are met based on compliance with State *Correction Standards* found in Title 15 of the *California Code of Regulations* by providing supporting services, including meals, commissary, educational, vocational, and recreational programs to foster rehabilitation and reduce recidivism (repeat offenders) of inmates once they leave the Sheriff's custody. The Inmate Services Division consists of the following units:

- ✓ **Commissary Operations** has an operating budget of \$8.8 million and 39 employees, whose goal is to provide high quality products and services to those incarcerated in the Sheriff's jail facilities, and secondly to provide funding to the Sheriff's Inmate Welfare Fund to support vocational and educational training programs. Each year, up to \$1 million in profit from commissary operations is transferred to the Inmate Welfare Fund.
- ✓ **Food Services Unit** provides three daily nutritional meals to each inmate housed in the County's four jail facilities. A staff of 83 operates four kitchens, three inmate dining halls, four warehouses, and prepares approximately 5.2 million meals annually. Their annual operating budget is \$15 million.
- ✓ **Correctional Programs Unit** was created to minimize the number of inmates who recommit crimes after release. It provides opportunities for inmates to participate in effective rehabilitative experiences while incarcerated in the County's four jail facilities. The unit is comprised of 39 employees and has an operating budget of \$12 million.
- ✓ **Inmate Re-Entry Unit** was created to combat the high recidivism rates. Any staff member can work in the Re-Entry Unit, and annual expenditures for services and supplies were about \$2,900.
- ✓ **Division Support Unit** contains 29 employees and provides professional support including recruiting, clerical, accounts payable, purchasing, revenue forecasting, auditing, legislative analysis, safety, inmate rights training, research and analysis, and the Inmate Law Library.

Inmate Welfare Fund

Under the *California Penal Code* Section 4025, an Inmate Welfare Fund is mandated to provide services essential for the benefit, welfare, and educational needs of inmates confined in detention facilities. This code section governs the establishment, use and reporting requirements for the Inmate Welfare Fund. The section states:

"The Sheriff may operate a store in connection with the County jail and for this purpose may purchase confectionery, tobacco, and tobacco users' supplies, postage and writing materials, and toilet articles and supplies and sell these goods, articles and supplies for cash to inmates in the jail...any profit shall be deposited in an inmate welfare fund to be kept in the treasury of the County."

The Inmate Welfare Fund is administered by the Sheriff-Coroner's Inmate Services Division, and is recorded under Fund 144. As of June 30, 2011, the Inmate Welfare Fund had **\$3.5 million in revenues** and **\$4.4 million in expenditures**, and required an \$875,000 fund balance transfer to cover the difference.



Inmate Welfare Fund Revenues

The Inmate Welfare Fund's primary revenue source is from **telephone commissions**. Based on a contract with Global-Tel Link (formerly AT&T), the contractor pays the County a **minimum annual guarantee of \$2.6 million** that is allocated between the Sheriff-Coroner's Inmate Welfare Fund and the Probation Department based on inmate collect-only telephone calls at the Central Jail Complex, Theo Lacy, James Musick, Juvenile Hall (Probation), Youth Guidance Center (Probation), Los Pinos Conservation Camp (Probation) and Western Medical Center Ward.

The second main revenue source comes from **Jail Commissary profit transfers**. California Penal Code Section 4025 requires commissary profits to be deposited into the Inmate Welfare Fund. Commissary profits are monitored by Sheriff-Coroner budget staff and are transferred annually to the Inmate Welfare Fund. See below for further discussion of the Jail Commissary and profit transfers.

Other revenue sources for the Inmate Welfare Fund come from **education services, rental revenue, interest income, bankruptcy repayments, sale of capital assets, and other miscellaneous revenue**. The table below shows all revenue components of the Inmate Welfare Fund for Fiscal Years 09/10 and 10/11:

TYPE	NAME	6/30/10 AMOUNT	6/30/10 %	6/30/11 AMOUNT	6/30/11 %
Service Revenue	Telephone Commissions	\$ 2,406,001	64%	\$2,476,372	70%
Miscellaneous Revenue	Commissary Profit Transfer	700,000	19%	500,000	14%
Service Revenue	Education Services	337,779	9%	285,932	8%
Service Revenue	Rental Revenue	194,316	5%	194,316	5%
Miscellaneous Revenue	Interest Income	74,062	2%	34,681	1%
Miscellaneous Revenue	Bankruptcy Repayment	44,876	1%	40,777	1%
Miscellaneous Revenue	Sale of Capital Assets	4,046	<1%	0	0%
Miscellaneous Revenue	Other	696	<1%	6,752	<1%
TOTAL REVENUE		\$3,761,776	100%	\$3,538,830	100%
FUND BALANCE AVAILABLE		\$1,254,653		\$874,574	
TOTAL REVENUE AND FBA		\$5,016,429		\$4,413,404	

Inmate Welfare Fund Expenditures

Penal Code Section 4025 states: *"The money and property deposited in the inmate welfare fund shall be expended by sheriff primarily for the benefit, education, and welfare of the inmates confined within a jail. Any funds that are not needed for the welfare of the inmates may be expended for the maintenance of county jail facilities. Maintenance of county jail facilities may include the salary and benefits of personnel used in the programs to benefit the inmates, including, but not limited to, education, drug and alcohol treatment, welfare, library, accounting, and other programs deemed appropriate by the Sheriff."*

The largest expenditures from the Inmate Welfare Fund are **salary and benefit costs** for all Sheriff-Coroner employees that work in inmate welfare programs. The second largest expenditures result from **staff support – services, supplies, training & equipment** that includes operational costs for telephone service, office supplies and equipment, equipment repair & maintenance, property casualty insurance, inmate service liaison, training costs, validated parking and other expenses related to volunteers, and any fixed asset purchases. Other fund expenditures are for **hot water systems, audio-visual, recreation, library services, and minor construction**. These purchases are requested by personnel in the inmate programs and are approved by Inmate Services Division management. Expenditures can be made by contract, revolving funds or purchasing cards. The table below shows Inmate Welfare Fund expenditures for Fiscal Years 09/10 and 10/11:



TYPE	NAME	6/30/10 AMOUNT	6/30/10 %	6/30/11 AMOUNT	6/30/11 %
Staff Support	Salaries	\$ 3,716,411	74%	\$3,334,505	76%
Staff Support	Services, Supplies, Training	875,569	17%	862,996	20%
General Inmate Welfare	Hot Water System	29,150	<1%	14,800	<1%
Inmate Education	Services, Supplies & Equip.	40,930	<1%	21,962	<1%
Inmate Resources	Audio Visual	39,268	<1%	37,905	<1%
Inmate Resources	Recreation	25,508	<1%	21,948	<1%
Inmate Resources	Library	144,693	3%	116,326	3%
Inmate Re-Entry	Services, Supplies, Training	2,981	<1%	2,826	<1%
Construction	Warehouse & Musick Bldg.	141,919	3%	136	<1%
TOTAL EXPENDITURES		\$5,016,429	100%	\$4,413,404	100%

Jail Commissary Operations

The Inmate Services Division operates a commissary for inmates and federal detainees held at three County jail facilities. The commissary is located in a warehouse in Anaheim. Profits from the jail commissary operations are deposited in the Inmate Welfare Fund. Uniform prices for commissary items are established at a level to support the Sheriff-Coroner's Inmate Welfare Fund program. All commodities sold in the jail commissary are approved items for that purpose. A price list of items available is established, kept current, and posted on printed order forms. Copies of the order forms are made available to inmates and federal detainees. The Jail Commissary Fund is Fund 143 in the County's General Ledger.

Jail Commissary Profit Transfers and Operating Reserves

Penal Code Section 4025 states that any profits resulting from commissary sales shall be deposited into the Inmate Welfare Fund. Sheriff-Coroner's Budget & Administrative Support tracks the annual jail commissary profits/losses and the profit transfers to the Inmate Welfare Fund.

The Sheriff-Coroner maintains an operating reserve for the jail commissary. The reserve is divided into two components: Reserve Designated for Operations and Reserve Designated for Inventory Material/Supplies. During our audit period, the reserve balance was **\$481,000**. A five-year analysis of the Jail Commissary Operating Reserve since FY 06-07 shows the reserve balance between \$481,000 and \$580,000 with minor annual fluctuations.

SCOPE AND METHODOLOGY

Our audit evaluated internal controls and processes over the administration and use of the Inmate Welfare Fund and selected Jail Commissary processes for the period July 1, 2010 through June 30, 2011. Our methodology included inquiry, auditor observation and testing of relevant documents over the following:

1. Evaluated controls and processes over all revenue categories of the Inmate Welfare Fund and tested a sample of transactions.
2. Evaluated controls and processes over all expenditure categories of the Inmate Welfare Fund and tested a sample of transactions.
3. Analyzed Inmate Welfare Fund financial statements for FY 09-10 and 10-11, including the trend of declining fund balances in the Inmate Welfare Fund and Jail Commissary Fund.
4. Evaluated cash receipting and reconciliation processes for inmate accounts.
5. Evaluated selected aspects of Jail Commissary operations including profit transfers, use of operating reserves, pricing methodology, commissary order forms, and controls over physical inventories.



SCOPE EXCLUSIONS

Our audit did not include an audit of system controls over the Sheriff-Coroner's Automated Jail System or the information systems used for administering, recording, and reporting transactions for the Inmate Welfare Fund and Jail Commissary.

Management's Responsibilities for Internal Controls

In accordance with the Auditor-Controller's County Accounting Manual Section S-2 *Internal Control Systems*: "All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is because management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls." Control systems shall be continuously evaluated by Management and weaknesses, when detected, must be promptly corrected. The criteria for evaluating an entity's internal control structure is the Committee of Sponsoring Organizations (COSO) control framework. Our Internal Control Audit enhances and complements, but does not substitute for the Sheriff-Coroner's continuing emphasis on control activities and self-assessment of control risks.

Inherent Limitations in Any System of Internal Control

Because of inherent limitations in any system of internal controls, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in Sheriff-Coroner's operating procedures, accounting practices, and compliance with County policy.

Acknowledgment

We appreciate the courtesy extended to us by the Sheriff-Coroner personnel during our audit. If we can be of further assistance, please contact me directly or Eli Littner, Deputy Director at 834-5899 or Michael Goodwin, Senior Audit Manager at 834-6066.

Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
John Scott, Undersheriff
Michael James, Assistant Sheriff, Sheriff-Coroner/Custody Operations & Court Services Command
Steven Kea, Commander, Sheriff-Coroner/ Custody Operations & Court Services Command
Greg Boston, Manager, Sheriff-Coroner, Inmate Services/Operations
Rick Dostal, Executive Director, Sheriff-Coroner/Administrative Services Command
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Nasrin Soliman, Manager, Sheriff-Coroner/Audit and Revenue
Jeff Franzen, Manager, Sheriff-Coroner/Financial Operations
Foreperson, Grand Jury
Susan Novak, Clerk of the Board of Supervisors



Objective #1: Evaluate adequacy of internal controls to ensure Inmate Welfare Fund receipts are recorded completely, accurately and in accordance with California Penal Code Section 4025 and with County and Sheriff-Coroner policies and procedures.

Work Performed

To accomplish this objective, we audited controls and processes over all types of cash receipts and revenues that are recorded into the Inmate Welfare Fund. We audited controls over telephone commissions, commissary profit transfers, educational services, rental revenue, interest income, bankruptcy repayment, and sales of capital assets. We tested revenue transactions totaling **\$484,604**, which was 13% of the annual Inmate Welfare Fund revenues.

Our evaluation of controls and processes noted that:

- Cash receipts are recorded completely, accurately and in compliance with applicable procedures, laws and regulations.
- Cash receipt duties are adequately segregated between Sheriff-Coroner jail cashiering staff and Financial/Administrative Services staff.
- Checks are immediately stamp-endorsed and restricted.
- Contracted telephone revenues are monitored by Financial/Administrative Services.
- Cash receipts are deposited daily.
- Receipts sent directly to Auditor-Controller Accounts Receivable are verified by Sheriff-Coroner Financial/Administrative Services (e.g., Education Services Revenue).
- Journal vouchers transferring revenue amounts are prepared by Sheriff-Coroner Budget staff and approved online by the Budget Manager.

Jail Commissary Operations

One revenue component of the Inmate Welfare Fund comes from profit transfers from jail commissary operations. As such, we audited selected aspects of jail commissary operations, including policies and procedures, inmate purchases, commissary order forms, profit transfers, use of operating reserves, pricing methodologies, and inventory procedures to gain an understanding of jail commissary operations and how it impacts the Inmate Welfare Fund. ([See related findings under Objective #3 below](#))

Conclusion

Based on the work performed, internal controls and processes over cash receipts and revenues of the Inmate Welfare Fund are effective and adequate to ensure receipts and revenues are recorded completely, accurately, and in accordance with California Penal Code Section 4025, as well as County and Sheriff-Coroner policies and procedures.

However, we identified **one (1) Significant Control Weakness** concerning the recording of inmate cash receipts and performing reconciliations of subsidiary inmate account records to the County General Ledger. The finding is discussed below.



Finding No. 1 – Inmate Cash Receipts Not Recorded/Reconciled to General Ledger (Significant Control Weakness)

Summary

Upon an inmate's arrival at jail, a trust account is established in the Sheriff-Coroner's Automated Jail System (AJS) to accommodate the inmate's monetary deposits and/or withdrawals. Any remaining balance is returned to an inmate upon transfer or release from jail. Our audit found that:

1. The Sheriff-Coroner does not reconcile the entire inmate AJS account balance to the County General Ledger. A portion of inmate cash receipts is maintained in a trust fund which is reconciled to the General Ledger monthly; however, the fund balance did not fluctuate the entire year.
2. The Sheriff-Coroner maintains a portion of inmate cash receipts at the jail cashing locations. These monies are not recorded in the General Ledger when received, are not reconciled to County records, and are not recorded in the General Ledger.

Details

Upon an inmate's arrival at the jail, a trust account is established in the Sheriff-Coroner's Automated Jail System. Money is not permitted in jail and funds are held by the Sheriff-Coroner in trust accounts. Cash and money orders are accepted for inmate accounts at the Sheriff's cashing locations at the Central Jail and Theo Lacy Facility. These funds are available for commissary purchases. Family, friends, or other sources may deposit funds into these trust accounts. AJS contains the detailed transaction history and amounts held separately for each inmate from whom the Sheriff-Coroner receives funds. The inmate AJS account balance is comprised of monies held in Trust Account No. 348-SH01, and monies held at jail cashing. Any remaining balance is returned to an inmate upon transfer or release from the County jail.

During our audit, we noted that the Sheriff-Coroner deposits a portion of money held on the behalf of inmates in Trust Account No. 348-SH01. This amount is reconciled to the County General Ledger on a monthly basis. The remaining inmate funds are kept at the jail cashing location. The cash receipts kept at jail cashing locations are primarily cash on hand, cash not yet distributed to released inmates, and cash deposits in transit for jail commissary sales.

As a result of this long-standing practice by the Sheriff-Coroner, two concerns were identified:

1. The Sheriff-Coroner does not reconcile the entire inmate AJS account balance to the County General Ledger. As of October 31, 2011, AJS reported **11,934 inmate accounts totaling approximately \$330,000**. Our audit noted that only **\$180,000** of that amount in Trust Account No. 348-SH01 is reconciled monthly to the General Ledger. The difference (approximately **\$150,000**) is cash kept on hand at the jail cashing locations. This cash maintained at the jail cashing locations was not reconciled due to item 2. below.
2. The Sheriff-Coroner's practice is not to record the receipts in the General Ledger that are not yet deposited into the bank. As of June 30, 2011, cash on hand not deposited into the bank totaled approximately **\$150,000**. These funds are not recorded in the General Ledger.

County of Orange Accounting Manual, Number F-4, *Fiduciary Funds*, provides guidelines for monies held in trust by County department and agencies.



Not reconciling trust account balances maintained in the Automated Jail System to the General Ledger increases the risk that financial records may contain errors or irregularities and not be detected. In addition, not recording the receipt of cash for inmate accounts in the County's general ledger upon physical custody reduces accountability over the funds and accuracy of financial reporting.

Recommendation No. 1

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.

Sheriff-Coroner Management Response

Concur. The Sheriff-Coroner has evaluated the feasibility of recording the receipt of cash and money orders in the general ledger and has concluded that it is not feasible to record this activity in the general ledger on a daily basis. Subsidiary ledgers will be maintained and reconciled on a daily basis and adjustments will be made to record the entire inmate Automated Jail System balance on a quarterly basis.



Objective #2: Evaluate the adequacy of internal controls to ensure Inmate Welfare Fund disbursements are valid, supported, timely, and made in accordance with California Penal Code 4025, and with County and Sheriff-Coroner policies and procedures.

Work Performed

To accomplish this objective, we audited controls and processes over all types of cash disbursements made from the Inmate Welfare Fund. We audited controls over staff support (salaries, services, supplies, training); general inmate welfare (hot water systems); inmate education; inmate resources (audio-visual, recreation, library); inmate re-entry, and construction expenditures. We tested non-salary disbursement transactions totaling **\$160,105**, which was 12% of the Inmate Welfare Fund non-salary expenditures.

Our evaluation of controls and processes noted that:

- Cash disbursements were accurate, valid, adequately supported, timely and properly recorded. We noted the following controls:
 - Cash disbursement duties were adequately segregated.
 - Invoices were matched to the original purchase order and receiving document by Inmate Services Division.
 - Inmate Services Division staff verified mathematical accuracy of invoices.
 - Invoices are logged by date to demonstrate timeliness of payment.

- Cash disbursements are properly authorized and processed in compliance with management's directives, and in compliance with applicable laws and regulations. We noted the following controls:
 - Disbursements were approved by Inmate Services Division Management in advance.
 - Contracts for disbursements are processed and approved by Sheriff-Coroner Purchasing staff.
 - Only authorized staff in Financial/Administrative Services can process and approve invoices for payment.

Conclusion

Based on the work performed, internal controls and processes over fund disbursements from the Inmate Welfare Fund are adequate and effective to ensure Inmate Welfare Fund disbursements are valid, supported, timely, and made in accordance with California Penal Code 4025, and with County and Sheriff-Coroner policies and procedures.

As such, we have no findings and recommendation under this audit objective.



Objective #3: Determine if the administration of the Inmate Welfare Fund and selected Jail Commissary processes is efficient and effective (e.g., no duplication of work, backlogs, manual processes that could benefit from automation, adequacy of fund policies and procedures).

Work Performed

We assessed the efficiency and effectiveness of the administration of the Inmate Welfare Fund and selected aspects of the Jail Commissary Fund. Through auditor observation and inquiry, we determined if there were any backlogs, duplication of work, manual processes that could benefit from automation, and policies and procedures that need to be established or enhanced governing the administration of the two funds.

Conclusion

During the course of our audit, we found no backlogs, duplication of work, or processes that could benefit from automation pertaining to the Sheriff-Coroner's administration and use of the Inmate Welfare Fund and the selected Jail Commissary processes we audited.

However, our audit disclosed several issues that impact efficiency and effectiveness in administering and monitoring the Inmate Welfare and Jail Commissary Funds. We identified **three (3) Significant Control Weaknesses** and **three (3) Control Findings** to improve and enhance controls and processes in addressing declining fund balances available; establishing policy and procedures for commissary profit transfers and operating reserves; determining sale prices for commissary merchandise; for segregating duties in performing commissary inventory counts; and revising commissary order forms. The findings and recommendations are discussed below:

Finding No. 2 – Inmate Welfare Fund: Declining Fund Balance Available (Significant Control Weakness)

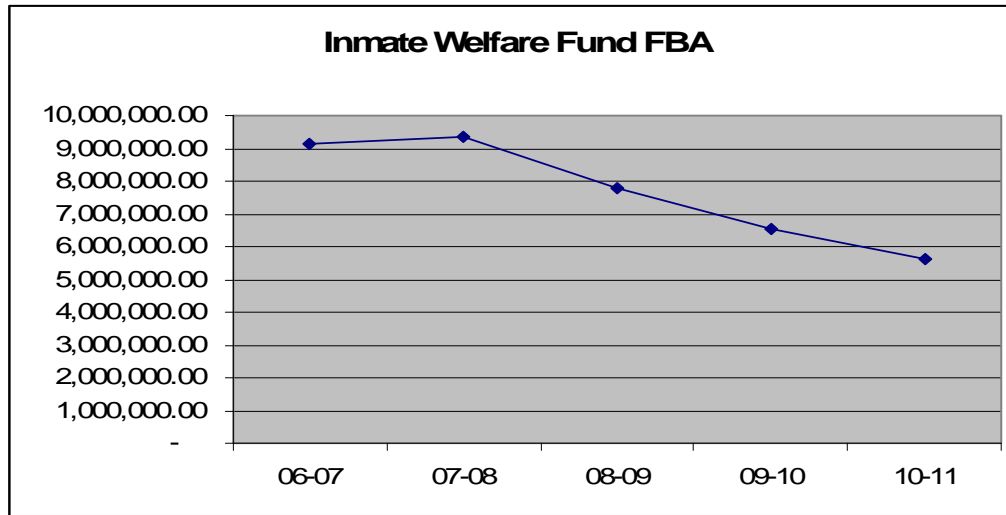
Summary

The Inmate Welfare Fund has experienced a declining Fund Balance Available (FBA) over the past four years. The FBA is used to cover operating costs when revenues are less than fund expenditures. To prevent a fund deficit from occurring, the Sheriff-Coroner should take immediate steps to increase the FBA by either increasing fund revenues or decreasing fund expenditures.

Details

The Inmate Welfare Fund is Fund 144 in the County's General Ledger. The FBA is the net difference between fund revenues and expenditures and represents the amount of funds available for use, and is intended to supplement costs if the expected revenue is not sufficient to cover expenditures. We noted there were no written policies and procedures over the administration of the Inmate Welfare Fund specifically addressing changes in the FBA, commissary profit transfers and use of operating reserves.

For fiscal year ending June 30, 2010, the Inmate Welfare Fund required using \$1.25 million of its FBA to cover operating costs. For the fiscal year ending June 30, 2009, **\$1.27 million of its FBA was used to cover costs**. According to a five-year analysis of the Inmate Welfare Fund, the FBA has steadily declined. From FY 2006-07 through FY 2010-11, the FBA decreased from \$9,141,836 to \$5,617,243, or a decrease of \$3,524,593 (**39% decrease**). The chart below shows the trend of the declining FBA:



The economy and fluctuating inmate population resulted in a decrease in revenue that impacted the FBA. The jail inmate population declined until the ICE contract commenced in FY 09/10. The Sheriff-Coroner did not implement cost reduction of administrative costs (primarily cutting salary costs) until FY 11/12. A declining FBA can eventually impact the ability to pay for inmate education and welfare programs. We believe that the Sheriff-Coroner needs to take timely and appropriate action concerning the declining FBA in the Inmate Welfare Fund.

Recommendation No. 2

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.

Sheriff-Coroner Management Response

Concur. Sheriff-Coroner will take appropriate actions to address the decreasing Fund Balance Available level for the Inmate Welfare Fund. We are currently reviewing the written policies and procedures.



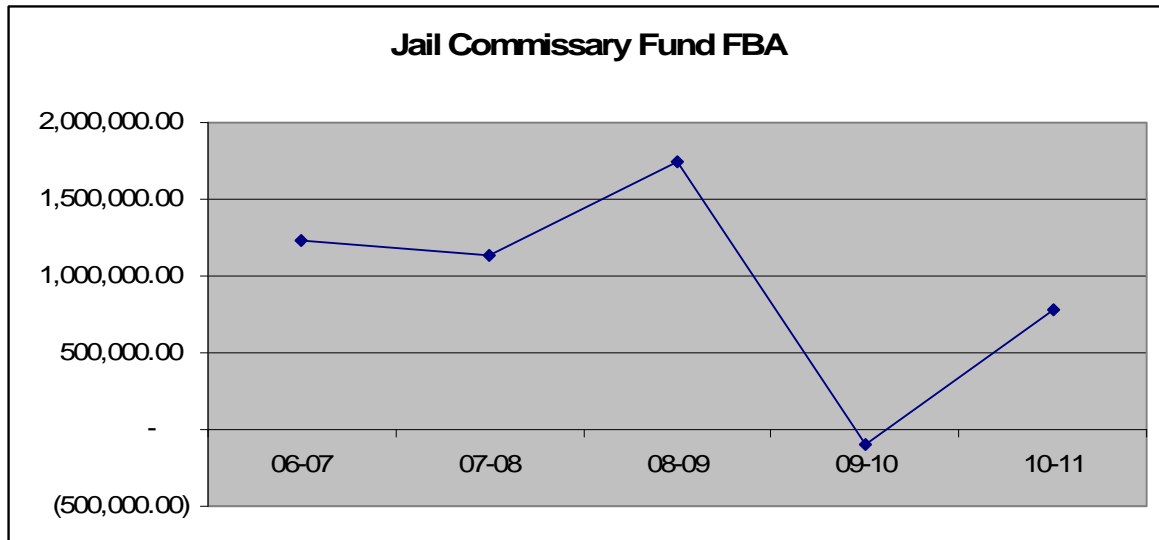
Finding No. 3 – Jail Commissary Fund: Declining Fund Balance Available (Significant Control Weakness)

Summary

The Jail Commissary Fund has experienced a declining fund balance available over the past few years. Similar to the Inmate Welfare Fund, the Sheriff-Coroner should take immediate steps to increase the FBA by either increasing revenues or decreasing expenditures in order to prevent a fund deficit from occurring.

Details

The Jail Commissary Fund is Fund 143 in the County's General Ledger. According to a five-year analysis of the Jail Commissary Fund, the FBA steadily increased between FY 06/07 and FY 08/09 from \$1.2 million to \$1.7 million, and rapidly decreased to below zero in FY 09/10. The FBA has slightly recovered for FY 10/11 to \$785,000. See the chart below showing the jail commissary FBA trend:



The same factors that impacted the Inmate Welfare Fund FBA (economy and fluctuating inmate population) also impacted the Jail Commissary Fund FBA. The jail inmate population was decreasing until the ICE contract started in FY 09/10. A declining FBA can impact the ability to cover jail commissary operating costs and impact the amount of profit transfers to the Inmate Welfare Fund. We believe that the Sheriff-Coroner needs to take timely and appropriate action concerning the declining FBA in the Jail Commissary Fund. One option is to evaluate the pricing structure of items available for sale in the jail commissary. (See [Finding No. 4](#) below)

Recommendation No. 3

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.

Sheriff-Coroner Management Response

Concur. Sheriff-Coroner will take appropriate actions to address the decreasing Fund Balance Available level for the Jail Commissary Fund. We are currently reviewing the written policies and procedures.



Finding No. 4 – Determination of Sales Prices for Commissary Merchandise (Significant Control Weakness)

Summary

There are opportunities for the Sheriff-Coroner to evaluate the pricing of items sold in the jail commissary to help fund commissary operations and to address fluctuating fund balances in the Jail Commissary and Inmate Welfare Funds.

Details

The Sheriff-Coroner operates a profit-based jail commissary. The primary goal of the jail commissary is to provide high quality products and services to those held in the jail facilities. Secondly, profits from the jail commissary provide funding to the Inmate Welfare Fund that supports vocational and educational training programs for inmates.

The Sheriff-Coroner calculates the sales price of commissary merchandise by adding fixed percentages of overhead cost to the acquisition cost of items for resale. Overhead costs are derived from commissary operations and from departmental support costs. The Sheriff-Coroner compares the calculated sale price for merchandise with the prices of identical or similar items offered at two international convenience store chains (Seven-Eleven and Circle K). We noted the following issues where the determination of sales prices for commissary merchandise can be enhanced:

1. The Sheriff-Coroner pays sales tax on taxable items when selling commissary merchandise. However, the formula used to calculate the sales prices for commissary merchandise does not always include a percentage for sales tax.
2. The practice of comparing sales prices for merchandise offered by the jail commissary and two international convenience store chains may not be effective for ensuring cost recovery. The comparison may not be appropriate due to the large economies of scale achieved for purchasing inventory by the two international convenience store chains.
3. The Sheriff-Coroner does not have a mechanism to determine or confirm the break-even point and sales volume levels necessary to achieve targeted fund levels. One method for establishing the sales price of commissary merchandise is a cost-volume-revenue (CVR) analysis. A CVR analysis is essential for building an understanding of the relationship between costs, business volume, and building a fund surplus. The analysis focuses on the reciprocal influence of pricing, volume, variable and fixed costs, and product mix. A CVR analysis is a tool to facilitate decisions about what products to offer, how to price them, and how to manage the cost structure.

We were informed that the current pricing model has been a long standing process. Due to the noted fluctuations in the fund balances available in both the Jail Commissary Fund and Inmate Welfare Fund, the Sheriff-Coroner has an opportunity to re-evaluate its jail commissary merchandise pricing methodology. A robust and effective methodology for analyzing and developing sales prices of commissary merchandise will help ensure the Sheriff-Coroner's future funding requirements of the Inmate Welfare Fund and Jail Commissary Fund are achieved.

Recommendation No. 4

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.



Sheriff-Coroner Management Response

Concur. Sheriff-Coroner is in the process of evaluating the sales prices of all merchandise for sale in the Jail Commissary to determine the best practice.

Finding No. 5 – No Written Policies and Procedures for Jail Commissary Profit Transfers and Use of Operating Reserves (Control Finding)

Summary

The Sheriff-Coroner did not have written policies and procedures for the Jail Commissary Fund concerning profit transfers to the Inmate Welfare Fund and uses of the Jail Commissary Fund operating reserve. Lack of written policy and procedures can result in inconsistent administration of the Jail Commissary Fund concerning profit transfers and use of operating reserves.

Details

Jail Commissary Profit Transfers

The Penal Code governing the Inmate Welfare Fund requires that profits from jail commissary operations be used for the benefit of the inmates and be placed in an Inmate Welfare Fund. Our audit found there was no written policy and procedures describing jail commissary profit transfers, so we could not audit for compliance with such policy.

Our audit noted there is not a clearly defined methodology for making jail commissary profit transfers. For example, for the year ending June 30, 2010, a jail commissary profit transfer of \$700,000 was made to the Inmate Welfare Fund; however, the Jail Commissary Fund incurred a loss of \$185,000 prior to the profit transfer. We were informed the transfer consisted of prior year profit amounts. In addition, between fiscal years 06-07 and 08-09, the entire jail commissary profit amount was not transferred to the Inmate Welfare Fund (\$1.3 million in profit was not transferred). The chart below shows Commissary Profit Transfers for a five year period:

Year	Profit/Loss	Profit Transfer	Variance
FY 2006-07	\$1,114,696	\$462,000	\$652,696
FY 2007-08	\$1,106,500	\$650,000	\$456,500
FY 2008-09	\$596,109	\$415,916	\$180,193
FY 2009-10	(\$184,687)	\$700,000	(\$884,687)
FY 2010-11	\$632,767	\$500,000	\$132,767

Written policy and procedures should be established that clearly describe the jail commissary profit transfer process. The procedures should define responsibility and guidelines over profit transfers, identify how profit transfer amounts are determined, and the process when the jail commissary fund sustains a loss instead of a profit.

Jail Commissary Operating Reserve

The Sheriff-Coroner maintains an operating reserve for the Jail Commissary. The operating reserve contains two components: one reserve designated for operations and one reserve designated for inventory materials/supplies. During the audit, the reserve balance was **\$481,000**. Our audit found there were no written policies and procedures governing the use of the Jail Commissary Operating Reserve, so we could not audit for compliance with such policy.

Detailed Results, Findings, Recommendations and Management Responses



Since FY 2006-07, the reserve balance has been between \$481,000 and \$580,000 with minor annual fluctuations. See the chart below for a five-year analysis of the jail commissary reserve:

Fiscal Year	Reserve for Designated Operations (A)	Reserve for Inventory Materials (B)	Total Reserves (A+B = C) (C)
FY 2006-07	\$200,000	\$290,000	\$490,000
FY 2007-08	\$200,000	\$380,000	\$580,000
FY 2008-09	\$200,000	\$320,000	\$520,000
FY 2009 -10	\$200,000	\$283,000	\$483,000
FY 2010-11	\$200,000	\$281,000	\$481,000

Written policy and procedures should be established that clearly describe the use of jail commissary operating reserves. The procedures should define responsibility and guidelines over monitoring the operating reserves, when the operating reserves should be used, replenishment of reserves, and maximum reserve limits. A lack of written policy and procedures can result in inconsistent administration and use of the jail commissary operating reserves.

The development and use of policy and procedural manuals minimizes variation and promotes quality through consistent implementation of a process, reduced work effort, along with improved comparability and credibility, even if there are temporary or permanent personnel changes.

Recommendation No. 5

Sheriff-Coroner establish written policies and procedures governing the administration, uses and methodologies over jail commissary profit transfers and operating reserves.

Sheriff-Coroner Management Response

Concur. Sheriff-Coroner is in the process of developing written policies and procedures governing the administration, uses and methodologies over jail commissary profit transfers and operating reserves.



Finding No. 6 – Commissary Physical Inventory Duties Are Not Segregated (Control Finding)

Summary

Our audit of the procedures for performing physical inventory counts of jail commissary merchandise disclosed that inventory duties were not adequately segregated. It was noted that storekeepers and warehouse workers that have custody and access to commissary merchandise inventory also perform the physical inventory counts; can modify perpetual inventory records; and can reconcile the inventory counts to the inventory records.

Details

Our review of the procedures for physical inventory counts of commissary merchandise disclosed the duties were not adequately segregated. It was noted that: (1) storekeepers and warehouse workers have custody of and access to commissary merchandise inventory; (2) storekeepers and warehouse workers perform physical inventory counts; (3) storekeepers modify perpetual inventory records; and (4) storekeepers reconcile the physical inventory counts to the perpetual inventory records. Employees who have access to the physical inventory should not be responsible for performing inventory counts. In addition, these employees should not be responsible for modifying the perpetual inventory records.

Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals. To reduce the risk of error, waste, or wrongful acts going undetected, no one individual should control multiple key aspects of a transaction or event. Rather, duties and responsibilities should be assigned systematically to a number of individuals to ensure that effective checks and balances exist. Key duties include authorizing, approving, and recording transactions; issuing and receiving assets; and reviewing auditing transactions.

Recommendation No. 6

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.

Sheriff-Coroner Management Response

Concur. Sheriff-Coroner is in the process of reviewing the inventory internal practices. Our objective is to establish the most economical, accurate and efficient way to conduct the periodic Jail Commissary's Physical Inventory and make certain that all functions are fully segregated.

Finding No. 7 – Enhancement of Jail Commissary Order Forms (Control Finding)

Summary

There are opportunities for the Sheriff-Coroner to revise and enhance the jail commissary order forms used by inmates for commissary purchases. Potential enhancements include offering the commissary order forms in other languages besides English, and adding a disclosure that inmate trust accounts will be charged for the purchase of commissary items. These enhancements are based on practices used by other similar jail commissary operations.

Details

Jail commissary order forms showing the merchandise available for sale are provided to inmates. Inmates complete an itemized order form for the purchase of commissary merchandise. The order form shows merchandise available for sale with the unit cost. A completed order form requires the inmate's name, dorm location, date, booking number, quantity of merchandise, and signature.



Our audit noted the commissary order forms were only provided in English and not in other languages. Given the fact that there are a substantial number of people who either do not speak English, or who are unable to effectively communicate in English because it is not their native language, there are provisions in various California Government Code sections that address providing alternatives when these individuals are served by a local or State public agency. For example, California Government Code §7295 states that:

“Any materials explaining services available to the public shall be translated into any non-English language spoken by a substantial number of the public served by the agency. Whenever notice of the availability of materials explaining services available is given, orally or in writing, it shall be given in English and in the non-English language into which any materials have been translated. The determination of when these materials are necessary when dealing with local agencies shall be left to the discretion of the local agency.”

Also, California Government Code §7296.2 states that:

“...a substantial number of non-English-speaking people are members of a group who either do not speak English, or who are unable to effectively communicate in English because it is not their native language, and who comprise five percent or more of the people served by any local office or facility or a state agency.”

We were informed that commissary order forms in languages other than English were not previously considered by the Sheriff-Coroner. Not providing jail commissary order forms in languages other than English may hinder some inmates from understanding the merchandise available for sale.

It was also noted that the Sheriff-Coroner’s commissary order form does not contain a statement authorizing the withdrawal of funds from the inmate’s trust account for the total cost of their order. A benchmark comparison of the jail commissary order form for the County of Los Angeles disclosed the following statement: *“Total cost of your order will be deducted from your trust account.”* Not informing inmates about the withdrawal of funds from inmate accounts for commissary purchases increases the risk of misunderstandings regarding the terms of the fiduciary arrangement.

Recommendation No. 7

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.

Sheriff-Coroner Management Response

Concur. Sheriff-Coroner Inmate Services Division will address the disclaimer regarding that the inmate’s funds will be charged to the inmate’s trust account on the order form at the next reorder interval approximately October 2012. However, we have evaluated and determined that creating forms for non-English speaking inmates are financially and operationally not feasible at this time.



ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we will classify audit report items into three distinct categories:

▶ **Critical Control Weaknesses:**

Audit findings or a combination of Significant Control Weaknesses that represent serious exceptions to the audit objective(s), policy and/or business goals. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

▶ **Significant Control Weaknesses:**

Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.

▶ **Control Findings:**

Audit findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.



ATTACHMENT B: Sheriff-Coroner Management Responses



**SHERIFF-CORONER DEPARTMENT
COUNTY OF ORANGE
CALIFORNIA**

SANDRA HUTCHENS
SHERIFF-CORONER

May 9, 2012

Dr. Peter Hughes, CPA
Director of Internal Audit
Hall of Finance & Records
12 Civic Center Plaza, Room 232
Santa Ana, CA 92701

**RE: Internal Control Audit: Sheriff-Coroner
Inmate Welfare Fund and Selected Jail Commissary Processes Response**

RECEIVED
INTERNAL AUDIT DEPARTMENT
2012 MAY 11 AM 10:57

Dear Dr. Peter Hughes:

We are providing this letter in response to the Internal Control Audit No. 1123, Inmate Welfare Fund and Selected Jail Commissary Processes for the period of July 1, 2010 through June 30, 2011. The audit resulted in four Significant Control Weaknesses and three Control Findings for the Sheriff-Coroner. The findings, recommendations, and Sheriff-Coroner responses are noted below:

**Finding No. 1 – Inmate Cash Receipts Not Recorded/Reconciled to General Ledger
(Significant Control Weakness)**

Our audit found that the Sheriff-Coroner does not reconcile the entire inmate Automated Jail System (AJS) account balance to the County General Ledger. A portion of inmate cash receipts is maintained in a trust fund which is reconciled to the General Ledger monthly; however, the fund balance did not fluctuate the entire year.

In addition, the Sheriff-Coroner maintains a portion of inmate cash receipts at the jail cashiering locations. These monies are not recorded in the General Ledger when received, are not reconciled to County records, and are not recorded in the General Ledger until they are expended by inmates for commissary sales.

Recommendation No. 1:

We recommend that the 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.

Sheriff-Coroner's Response:

Concur. The Sheriff-Coroner has evaluated the feasibility of recording the receipt of cash and money orders in the general ledger and has concluded that it is not feasible to record this activity in the general ledger on a daily basis. Subsidiary ledgers will be maintained and reconciled on a daily basis and adjustments will be made to record the entire inmate Automated Jail System balance on a quarterly basis.

320 N. FLOWER STREET, SUITE 108, SANTA ANA, CA 92703 (714) 834-6670 FAX (714) 834-6697

*Integrity without compromise. Service above self. Professionalism in the performance of duty.
Vigilance in safeguarding our community*



ATTACHMENT B: Sheriff-Coroner Management Responses

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Dr. Peter Hughes, CPA
Director of Internal Audit
May 9, 2012

Finding No. 2 – Inmate Welfare Fund: Declining Fund Balance Available (Significant Control Weakness)

Our audit found that the Inmate Welfare Fund has experienced a declining Fund Balance Available (FBA) over the past four years. The FBA is used to cover operating costs when revenues are less than fund expenditures. To prevent a fund deficit from occurring, the Sheriff-Coroner should take immediate steps to increase the FBA by either increasing fund revenues or decreasing fund expenditures.

Recommendation No. 2:

We recommend that the 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.

Sheriff-Coroner's Response:

Concur. Sheriff-Coroner will take appropriate actions to address the decreasing Fund Balance Available level for the Inmate Welfare Fund. We are currently reviewing the written policies and procedures.

Finding No. 3 – Jail Commissary Fund: Declining Fund Balance Available (Significant Control Weakness)

The Jail Commissary Fund has experienced a declining fund balance available over the past few years. Similar to the Inmate Welfare Fund, the Sheriff-Coroner should take immediate steps to increase the FBA by either increasing revenues or decreasing expenditures in order to prevent a fund deficit from occurring.

Recommendation No. 3:

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.

Sheriff-Coroner's Response:

Concur. Sheriff-Coroner will take appropriate actions to address the decreasing Fund Balance Available level for the Jail Commissary Fund. We are currently reviewing the written policies and procedures.

Finding No. 4 – Determination of Sales Prices for Commissary Merchandise (Significant Control Weakness)

There are opportunities for the Sheriff-Coroner to evaluate the pricing of items sold in the jail commissary to help fund commissary operations and to address fluctuating fund balances in the Jail Commissary and Inmate Welfare Funds.



ATTACHMENT B: Sheriff-Coroner Management Responses

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Dr. Peter Hughes, CPA
Director of Internal Audit
May 9, 2012

Recommendation No. 4:

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.

Sheriff-Coroner's Response:

Concur. Sheriff-Coroner is in the process of evaluating the sale prices of all merchandise for sale in the Jail Commissary to determine the best practice.

Finding No. 5 – No Written Policies and Procedures for Jail Commissary Profit Transfers and Use of Operating Reserves (Control Finding)

The Sheriff-Coroner did not have written policies and procedures for the Jail Commissary Fund concerning profit transfers to the Inmate Welfare Fund and uses of the Jail Commissary Fund operating reserve. Lack of written policy and procedures can result in inconsistent administration of the Jail Commissary Fund concerning profit transfers and use of operating reserves.

Recommendation No. 5:

Sheriff-Coroner establish written policies and procedures governing the administration, uses and methodologies over jail commissary profit transfers and operating reserves.

Sheriff-Coroner's Response:

Concur. Sheriff-Coroner is in the process of developing written policies and procedures governing the administration, uses and methodologies over jail commissary profit transfers and operating reserves.

Finding No. 6 – Commissary Physical Inventory Duties Are Not Segregated (Control Finding)

Our audit of the procedures for performing physical inventory counts of jail commissary merchandise disclosed that inventory duties were not adequately segregated. It was noted that storekeepers and warehouse workers that have custody and access to commissary merchandise inventory also perform the physical inventory counts; can modify perpetual inventory records; and can reconcile the inventory counts to the inventory records.

Recommendation No. 6:

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.

Sheriff-Coroner's Response:

Concur. Sheriff-Coroner is in the process of reviewing the inventory internal practices. Our objective is to establish the most economical, accurate and efficient way to conduct the periodic Jail Commissary's Physical Inventory and make certain that all functions are fully segregated.



ATTACHMENT B: Sheriff-Coroner Management Responses

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Dr. Peter Hughes, CPA
Director of Internal Audit
May 9, 2012

**Finding No. 7 – Enhancement of Jail Commissary Order Forms
(Control Finding)**

There are opportunities for the Sheriff-Coroner to revise and enhance the jail commissary order forms used by inmates for commissary purchases. Potential enhancements include offering the commissary order forms in other languages besides English, and adding a disclosure that inmate trust accounts will be charged for the purchase of commissary items. These enhancements are based on practices used by other similar jail commissary operations.

Recommendation No. 7:

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.

Sheriff-Coroner's Response:

Concur. Sheriff-Coroner Inmate Services Division will address the disclaimer regarding that the inmate's funds will be charged to the inmate's trust account on the order form at the next reorder interval approximately October 2012. However, we have evaluated and determined that creating forms for non-English speaking inmates are financially and operationally not feasible at this time.

We appreciate the time taken by you and your staff to make recommendations which will help us to improve our process. Thanks for the professionalism of the staff that conducted the audit.

If you have any questions, please contact me or Senior Director Jane Reyes, Administrative Services Command at (714) 647-1802.

Sincerely,



Sandra Hutcheris
Sheriff-Coroner

- c: Undersheriff John Scott
Assistant Sheriff Michael James, OCSD, Custody Operations & Court Services
Commander Steven Kea, OCSD, Custody & Court Operations Command
Executive Director, Rick Dostal Administrative Services Command
Senior Director, Jane Reyes Administrative Services Command
Director Brian Wayt, Financial/Administrative Services
Noma M. Crook-Williams, Assistant Director, Financial/Administrative Services
Sharon Tabata, Financial Officer, Financial/Administrative Services
Jeff Franzen, Financial Operations Manager, Financial/Administrative Services
Nasrin Soliman, Audit Manager, Financial/Administrative Services
Director Greg Boston, OCSD, Inmate Services Operations
Michael Goodwin, Senior Audit Manager, OC Internal Audit
Kenneth Wong, Audit Manager, OC Internal Audit
Michael Dean, Audit Manager, OC Internal Audit