



Lexington-Fayette Urban County Government
OFFICE OF INTERNAL AUDIT

INTERNAL AUDIT REPORT

DATE: January 19, 2012

TO: Jim Gray, Mayor

CC: Richard Moloney, Chief Administrative Officer
Clay Mason, Commissioner of Public Safety
Ray Sabbatine, Interim Director of Community Corrections
Phyllis Cooper, Director of Accounting
Susan Straub, Communications Director
Urban County Council Members
Internal Audit Board Members

FROM: Bruce Sahli, Director of Internal Audit

RE: Community Corrections Prisoner Account Fund Audit

Background

The Community Corrections facility currently houses approximately 1,140 inmates. Upon arrival at the Community Corrections facility, inmates are charged a \$20 booking fee for intake processing. Any additional funds on hand (cash, checks, or money orders) are deposited into an inmate account called the Prisoner Account Fund (PAF), and the deposited amount is recorded in an inmate account maintained on the Canteen Manager accounting software system operated at the Community Corrections facility. During incarceration, an inmate may use funds in their account to purchase various items not normally provided by the facility, including additional food, toiletries, medication, religious books, and various services such as medical exams and haircuts. The cost of these purchases is charged to the inmate's account. Upon release, an inmate is cut a check for the credit balance of their PAF account if one exists.

Scope and Objectives

The general control objectives for the audit were to provide reasonable assurance that:

- PAF collections are appropriately safeguarded and deposited in a timely manner
- Inmate transactions are properly recorded
- Expenditures are reasonable and appropriate
- PAF is in compliance with applicable laws and regulations

Audit results are based on observations, inquiries, transaction examinations, and the examination of other audit evidence and provide reasonable, but not absolute, assurance controls are in place and are effective. In addition, effective controls in place during an audit may subsequently become ineffective as a result of technology changes or reduced standards of performance on the part of management.

The scope of audit included transactions occurring during fiscal year 2010 and 2011.

Statement of Auditing Standards

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity, or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

Audit Opinion

In our opinion, the controls and procedures provided reasonable assurance that the general control objectives were being met. Opportunities to enhance controls are included in the Summary of Audit Findings.

Priority Rating Process

To assist management in its evaluation, the findings have been assigned a qualitative assessment of the need for corrective action. Each item is assessed a high, moderate, or low priority as follows:

High - Represents a finding requiring immediate action by management to mitigate risks associated with the process being audited.

Moderate – Represents a finding requiring timely action by management to mitigate risks associated with the process being audited.

Low - Represents a finding for consideration by management for correction or implementation associated with the process being audited.

SUMMARY OF AUDIT FINDINGS

Finding #1 Segregation of Duties Issue

Priority Rating: High

Condition:

Two Inmate Account employees have the responsibility to approve inmate refunds from the PAF. Another Inmate Account employee is responsible for approving PAF expenditures, and a fourth Inmate Account employee is responsible for reconciling the PAF checking account. In addition to these duties, all four of these employees also have authority to print and sign PAF checks, resulting in significant segregation of duty issues.

Effect:

The absence of properly segregated duties reduces management's ability to prevent, detect, and/or correct errors and irregularities, thereby significantly increasing financial risk.

Recommendation:

The responsibilities for approving PAF disbursements, reconciling PAF account activity, and printing and signing PAF checks should be separated to enhance control over PAF account activity.

Interim Director of Community Corrections Response:

Management concurs with the audit findings. The staff member responsible for reconciling the bank account is no longer an authorized signer on the PAF account. With limited number of available staff all efforts are made to segregate the duties as much as possible.

Commissioner of Public Safety Response:

I concur with the Interim Director's response.

Finding #2 Improved Control of Check Stock Needed**Priority Rating: High****Condition:**

Four Inmate Account employees maintain small supplies of PAF check stock in their work areas. Each one is authorized to print PAF checks on their printers. The remaining check stock is secured in a locked cabinet. There is no check log to account for check stock or to track the issuance of these checks.

Effect:

The Absence of a check log increases the risk of checks being lost, stolen, or otherwise misused.

Recommendation:

Community Corrections should develop a check log designed to account for check stock and the distribution of checks to the various Inmate Account employees. Check stock should be inventoried monthly by an employee with no check printing or check signing authority. The monthly physical inventory should be reconciled to the check log and any discrepancies should be promptly investigated.

Interim Director of Community Corrections Response:

Management concurs with the audit findings. The staff member who handles the return of funds to the inmates keeps a stock of checks in a locked cabinet behind a locked door. The staff member responsible for accounts payable issues related to the operation of the Prisoner Benefit and the escheats also maintains a small stock of checks secured in a locked drawer. The Division will develop a check log to properly track which employee has possession of numbered check stock currently in circulation. The remaining check stock will continue to be maintained in a locked cabinet.

Commissioner of Public Safety Response:

I concur with the Interim Director's response.

Finding #3. Refund Issued for Improper Amount**Priority Rating: Moderate****Condition:**

A refund was erroneously issued to an inmate prior to his bond being paid. The inmate was refunded his full balance including the amount of the bond, which should have been collected from the inmate's existing PAF account balance.

Effect:

The Prisoner Account Fund suffered a financial loss of approximately \$2,000.

Recommendation:

We noted that processes have been put in place to prevent similar errors in the future. Inmate Account personnel should consistently review all PAF accounts prior to issuing checks for the account balance to ensure that all balances due to Community Corrections are collected.

Interim Director of Community Corrections Response:

Management concurs with the audit findings. The employee responsible for the error was new to the position and did not recognize the funding issue. Upon recognition of the error the employee notified her supervisor who in turn notified Senior Management. The inmate was contacted; however, he failed to respond to our request for the return of the funds. New procedures were developed and implemented to prevent this error from occurring in the future.

Commissioner of Public Safety Response:

I concur with the Interim Director's response.

Finding #4: Expenditure Not Supported**Priority Rating: Moderate****Condition:**

During our detail testing we noted that one expenditure did not contain supporting documentation. Community Corrections personnel stated that small purchases for video rentals, pizza, etc. are prearranged and receipts are not submitted to support the expenditure. Per KRS 441.135 Canteen for Prisoners, "The jailer shall keep books of accounts of all receipts and disbursements from the canteen..."

Effect:

The validity of expenditures and the accurate accounting thereof cannot be verified without appropriate support.

Recommendation:

Support should be maintained for all PAF expenditures.

Interim Director of Community Corrections Response:

Management concurs with the audit findings. The expense was an ongoing monthly expenditure and while the receipt was not readily available at the time of the audit a member of the Financial Unit was able to contact the vendor and obtain the supporting documentation. All receipts will be maintained and kept on file to support the expenditures.

Commissioner of Public Safety Response:

I concur with the Interim Director's response.