



Mayor Teresa Ann Isaac

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Division of Internal Audit

INTERNAL AUDIT REVIEW

DATE: May 15, 2006

TO: Teresa Ann Isaac, Mayor

CC: Milton Dohoney, Chief Administrative Officer
Rebecca Langston, Commissioner of Public Safety
Ron Bishop, Director of Community Corrections
Dewitt Hisle, Audit Board Chairman
Dr. David Stevens, Council Budget & Finance Committee Chairman

FROM: Bruce Sahli, Director of Internal Audit

RE: Community Corrections Collections & Disbursement Review

Background

On March 31, 2005 the Division of Internal Audit issued an audit report on Community Corrections Collections & Disbursement Controls. The report contained several significant findings related to the collection and depositing of funds, and the disbursement of those funds. This review was conducted to evaluate controls put in place by management to address those specific findings from the March 31, 2005 report as summarized below:

- Written collection procedures needed to be developed
- Collection and disbursement duties needed to be segregated
- Blank checks were unsecured
- Significant restitution payments were not being distributed in a timely manner
- Significant late deposits
- Procedures for handling returned restitution payments needed improvement
- Probation fees were being held at Adult Probation until the related account closed
- CAP fees were being overcharged
- There were variances in reported CAP collections
- CAP voided transaction support was missing
- Blank checks were being pre-signed

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- Prisoner Account Fund activity was not up to date
- Purchase approval procedures were needed
- Data file back-up procedures were needed
- Server Room fire suppression system was needed
- Procedures were needed for reimbursement of missing inmate property

Scope and Objectives

We reviewed Community Corrections collection and disbursement procedures and tested a sample of collection and disbursement transactions to determine that effective collection and disbursement controls were in place as indicated by management. Depending on the implementation dates of corrective actions taken by the Division of Community Corrections, our test samples included transactions within the period July 1, 2005 through February 28, 2006.

Statement of Auditing Standards

We conducted our review in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the review to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under review. A review also includes limited assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the review objectives. We believe that our review provides a reasonable basis for our conclusions.

Results of Review

In our opinion, sufficient controls were in place to provide reasonable assurance that funds collected were being accurately reported and deposited on a timely basis, and that expenditures were being accurately recorded and approved. Overall, our review noted significant improvement in controls over the areas being reviewed. Opportunities to enhance controls are included in the Summary of Audit Findings.

SUMMARY OF FINDINGS

Purchase Approval Procedures not Consistently Followed

The Division of Community Corrections did not have on-line access to the LFUCG Purchasing System when the audit was completed on March 31, 2005 and therefore was not required to adhere to the specific controls related to that system. It was therefore recommended that Community Corrections management establish for that Division a separate set of written purchasing procedures to provide guidelines and standards of performance. One of the procedures Community Corrections established as a result of that recommendation was that the Division Director would approve all purchases greater than \$750. We tested 26 disbursements ranging in value from \$797 to \$23,871 to

determine if this procedure was being adhered to, and noted only three transactions having evidence of the Director's approval.

Now that the STARS System purchasing function is being installed in Divisions throughout the Urban County Government, management will have the ability to approve disbursements on-line while enhancing transaction monitoring capabilities. It is recommended that the STARS System be incorporated into the Division of Community Corrections purchasing function, and that Community Corrections adhere to the uniform purchasing procedures set forth within the STARS System. In the interim, it is recommended that current Community Corrections purchasing procedures be adhered to.

Division of Community Corrections Management Response:

Management Concur:

The division's protocol is that items purchased on contract over \$750.00 do not require the director's signature. Non contract purchases over \$750.00 do require the director's signature. Non contract purchases under \$750.00 do not require the director's signature, but may be approved by the Assistant Director of Administrative Services. The division's written protocol was not clear enough to convey management's intent. The Operation Order has been amended to clearly delineate management's practice as outlined above. The sampling of 26 purchases reviewed by the auditors reflected 23 in line with the above stated procedures. Of the remaining three, one approval by e-mail from the director was lost in our computer system's crash last summer. One was for forms required by KRS utilized by inmates, and the third one was for stamped envelopes for indigent inmates. I would submit that there were two violations of our protocol, but that we are now in total compliance. Regarding the utilization of STARS, steps are being taken to provide additional software to the Division of Community Corrections so that our systems can be fully compatible with the STARS System and in full compliance with STARS purchasing procedures.

Work Release Payroll Transactions Deleted

Community Corrections is responsible for administering the Work Release Program, in which the Division collects payroll checks for inmates on work release and distribute their earnings to designated recipients (e.g., family members), or to the inmates upon release. Checks collected under this program are entered into inmate accounts maintained in a software program called QuickBooks, which generates cash receipts.

During the review we noted several gaps in the receipt sequence numbers. Discussions with Community Corrections personnel determined that this was due to the practice of deleting transactions in order to correct data input errors. Examination of the QuickBooks Help feature noted that such transactions should always be voided rather than deleted, in order to take advantage of that program's transaction tracking capabilities.

Now that the STARS System is being installed in Divisions throughout the Urban County Government, improved cash collection and disbursement controls will be available on-line while enhancing transaction monitoring capabilities. It is recommended that the STARS System be

incorporated into the Division of Community Corrections collection and disbursement functions, and that Community Corrections adhere to the uniform collection and disbursement procedures set forth within the STARS System.

Division of Community Corrections Management Response:

Management Concur:

Corrective action has been taken on the proper use of the software. Regarding the utilization of STARS, steps are being taken to provide additional software to the Division of Community Corrections so that our systems can be fully compatible with the STARS System and in full compliance with STARS cash collection and disbursement procedures.