



Mayor Jim Newberry

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Office of Internal Audit

INTERNAL AUDIT REPORT

DATE: January 14, 2009

TO: Jim Newberry, Mayor

CC: Joe Kelly, Senior Advisor for Management
Rama Dhuwaraha, Chief Information Officer
Tim Bennett, Commissioner of Public Safety
Kyna Koch, Commissioner of Finance & Administration
Logan Askew, Commissioner of Law
Ron Bishop, Director of Community Corrections
Susan Straub, Communications Director
Urban County Council Members
Internal Audit Board Members

FROM: Bruce Sahli, Director of Internal Audit

RE: Division of Community Corrections Purchase Activity

BACKGROUND

The Division of Community Corrections (CC) has 1,280 beds and averaged 1,274 inmates per day in calendar 2007, indicating it generally operates at full capacity. In order to effectively manage this facility, significant reliance is placed upon information technology. The jail information management system has been developed by Cottrell Consulting, a local software development firm that markets itself as specializing in the creation of unique jail management systems customized to meet the needs of individual clients.

On March 28 2008, we met with Senior Management to hear their concerns regarding purchase activity at the Division of Community Corrections. Senior management was primarily concerned about information technology purchases that had occurred in that Division without any oversight from the Division of Computer Services. They also questioned where Community Corrections obtained funding for such extensive purchase activity. It was agreed that preliminary information provided at that meeting, coupled with other review steps performed by the Office of Internal Audit, warranted an audit of CC purchase activity.

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SCOPE AND OBJECTIVES

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

- Purchases made outside the PeopleSoft System were reasonable and appropriate (this includes the Phone, Prisoner Account Fund (PAF), and Community Alternative Program (CAP) accounts)
- Expenditures were properly approved, tracked for receipt of goods or services, and assets were properly safeguarded
- Purchase of goods or services adhered to bid or other LFUCG purchasing guidelines
- Purchase activity complied with applicable laws, regulations, and SOPs

The scope of our audit covered transactions in the Phone, PAF, and CAP accounts for the period February 1, 2004 through June 30, 2008.

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 did not provide reasonable assurance that the general control objectives were being met. Opportunities to enhance controls are included in the Summary of Audit Findings.

Director of Community Corrections Response: It should be noted that in 2004, shortly after I became Director, I requested the audit of all three accounts covered by this audit report in order to ensure that all assets were accounted for and to identify practices and policies that needed improvement. The Prisoner Account Fund (PAF), and Community Alternative Program (CAP) accounts were audited, but the Phone account was not. Therefore, I welcome the recommendations contained in the current audit report.

My administration concurs with your audit opinion. While we have not seen any evidence that funds were spent for inappropriate purchases during the audit period or that assets were misused, we certainly agree that controls can be enhanced to better meet the general control objectives identified in the audit.

SUMMARY OF AUDIT FINDINGS

1. Phone Account Should Become Part of General Fund

As authorized on July 8, 2004, Ordinance 196-2004 approved CC Standard Operating Procedures (SOPs) retroactive to October 26, 2000, which included language stating that use of the Phone Revenue Account would be at the discretion of the Director of Community Corrections. Revenue for this account is generated via an agreement with a company called Evercom to provide collect call phone service to inmates. Per CC management, the most recent contract with Evercom provides the Division with a 55.2% commission on all gross billed revenue from the inmate phone system. These funds are deposited into the LFUCG Detention Phone Account. According to CC's internal records, the Phone Revenue Account has generated \$4,101,671 in revenue for the period January 3, 2000 through June 30, 2008. As of December 31 2008, the CC Phone Revenue Account had an ending balance of \$1,237,524. This Account has been a primary source of funds for information technology purchases at CC.

Phone Revenue Account expenditures incurred during the period January 3, 2000 through June 30, 2008 include \$1,335,353 paid in monthly increments of approximately \$16,285 for the purchase of land on which the jail resides, with the final payment occurring in October 2006. Other significant expenditures categories within this account include:

Cottrell Consulting	\$451,476
Facility Improvement	\$432,731
Computer Hardware	\$306,201
Legal Material	\$146,454
Computer Software	\$80,002
Equipment	\$41,227
Supplies	\$24,811
Food	\$27,813
Lost Property (reimbursements to inmates)	\$17,420

As this is a discretionary account, expenditures have been approved internally by the Director of Community Corrections or authorized subordinates with payments made via checks from the LFUCG Detention Phone Account. The expenditure process does not use the PeopleSoft System, nor did it previously use the LFUCG mainframe system to process purchases or issue payments to vendors.

The Council approved FY 2009 Budget has allocated \$30,466,250 from the General Fund for the Division of Community Corrections, including \$7,573,390 for operating expenses. LFUCG has many sources of funds generated by specific Divisions that still flow into the General Fund rather than being retained for use by those Divisions (e.g., Parks & Recreation golf course revenue). We find no compelling reason for CC's Phone Revenue Account to have the special status of a discretionary fund, particularly when the highly significant amount of General Fund dollars allocated to that Division is considered.

It is recommended that the ordinance authorizing the use of the Phone Revenue Account as a Community Corrections discretionary fund be amended, and that this revenue be included in LFUCG's General Fund. All operational purchases of the nature described above should be processed through LFUCG's PeopleSoft System and be subject to standard LFUCG purchasing policies. The Detention Phone Account should be closed, and the balance moved to the LFUCG Concentration Account as General Fund revenue.

Director of Community Corrections Response: The transactions were authorized by Ordinance 196-2004. All transactions from this account are reflected in PeopleSoft, but currently have to be entered manually by the Division of Accounting. We agree that a better approach of handling the phone account funds would be to subject the funds to all the controls applicable to other fund accounts through a full integration into the PeopleSoft System. We will request that the Council amend Ordinance 196-2004 to require that all phone account funds be subjected to the internal controls established for the LFUCG general fund.

We have been and will continue to work toward electronically integrating this fund into the PeopleSoft System, although we do not control how and when that will occur. In addition, we recommend that the CAP and Prisoner Account funds also be integrated into the PeopleSoft System to the fullest extent practical.

We anticipate that the phone account funds, whether as a part of the general fund or as a separate fund, will be dedicated to uses within the Division of Community Corrections and we will be discussing this with the appropriate parties in the very near future.

Commissioner of Public Safety Response: I concur with Director Bishop's response.

Commissioner of Finance & Administration Response: Finance and Administration is in agreement with the recommendation by the Auditor. In addition to the recommendations by the Auditor, we believe that the bank account at National City Bank should also be closed and that all deposits be entered into PeopleSoft and deposited into the main LFUCG depository account at National City Bank.

We feel certain that PeopleSoft functionality can be utilized to achieve the objectives outlined in the audit finding and will work collaboratively with the Division of Community Corrections to meet the goals.

Senior Advisor for Management Response: The Office of the Senior Advisor for Management concurs with the findings and recommendations of the Office of Internal Audit.

2. CAP Should Become a Self-Sustaining Fund

The Community Alternative Program (CAP) performs an extensive number of drug tests annually. According to Community Corrections management, this program tests at least 1,500 samples each month for Family Court alone. Drug Court is also a large client, along with many additional drug tests for probationers, work release program inmates, community service workers, and various local

agencies. This program's revenue has experienced significant growth in the past four years, as indicated in its June 30th reconciled bank account balance for the following years:

2008	\$643,048
2007	\$396,882
2006	\$163,264
2005	\$141,850

Per Community Corrections management, this growth has been achieved without the advertisement of services offered.

Salaries for CAP employees are paid out of the LFUCG General Fund. Expenditures are approved internally by authorized CAP personnel with payments made via checks issued from the LFUCG Division of Community Corrections-CAP checking account.

It is recommended that CAP be set up as a Self-Sustaining Fund of the same order as the Extended School Program (ESP) Fund, where revenue generated by that program provides the funding for its personnel, operating, and insurance appropriations. CAP purchases should also be processed through LFUCG's PeopleSoft System subject to standard LFUCG purchasing policies.

Director of Community Corrections Response: Management concurs that the CAP program should become a self-sustaining fund. In fact, it has always been the goal to make CAP self-sustaining. However, the audit only mentions one unit of the Community Alternative Program (CAP) which was Drug Testing. CAP consists of three units which include Drug Testing, Electronic Monitoring, and Day Reporting.

The CAP unit is, and has been, operationally self sufficient except for personnel costs since 2004. The continued growth of the unit will determine when the program can begin to cover personnel costs. At this time, the revenue generated by the three programs within CAP can not cover the personnel costs. Placement of participants in CAP programs is determined by the courts, so the Division does not control the program's rate of growth.

Commissioner of Public Safety Response: I concur with Director Bishop's response.

Commissioner of Finance & Administration Response: Finance and Administration is in agreement with the recommendation by the Auditor. The CAP unit is currently a component of a Self-Sustaining Fund, and if the recommendations of this report are implemented it will be the only activity still remaining in the existing fund (4203), therefore eliminating the need for a new fund to be established.

In addition to the recommendations by the Audit, we believe that the bank account at National City Bank for this should also be closed and that all deposits be recorded in PeopleSoft and deposited into the main LFUCG depository account at National City Bank.

During the 2010 budget process, we should move all personnel costs to the CAP fund and a general fund transfer should be budgeted to support the portion of cost which can not be covered by the

revenues. This practice should continue through all subsequent budgets unless there is a compelling reason to make yet another change.

Senior Advisor for Management Response: The Office of Senior Advisor for Management agrees with the recommendations of the Office of Internal Audit. Community Corrections will be asked to evaluate the services to determine how revenue and program cost can be brought into balance so as to become self-sustaining.

3. CC Jail Management System Needs Extensive Internal Control Evaluation

The CC jail management operating system developed by Cottrell Consulting went live in 2000. Cottrell Consulting is a small Lexington-based software development company, which lists only four employees on its website. The LFUCG Division of Computer Services has never conducted a review of that system's configuration, system documentation, system security, data security, penetration testing, change management practices, disaster recovery capabilities, or any other type of system review. Some data contained within the CC jail management system includes personal information that may be subject to privacy and/or identify theft protection laws.

It is recommend that the Division of Computer Services conduct a full evaluation of CC's IT system configuration, system documentation, system security, data security, penetration testing, change management practices, and disaster recovery capabilities before any additional system enhancements are made to the CC jail management operating system. Until that evaluation is completed, the Division of Computer Services should postpone any additional upgrades, enhancements, or modifications to that system. The Division of Computer Services should also evaluate the business risk associated with the use of a small local company to upgrade and maintain such an extensive system, and should evaluate LFUCG's ability to maintain the current IT system should Cottrell Consulting, for whatever reason, no longer be able to provide system upgrades and maintenance.

Director of Community Corrections Response: Management concurs. With ever-changing technology and outside threats to the security of our system and its data, periodic control evaluations are needed. We have begun discussions with the Chief Information Officer to implement this recommendation.

Commissioner of Public Safety Response: I concur with Director Bishop's response.

Chief Information Officer Response: The Division of Computer Services via the Office of the CIO has entered into an agreement with Interhack to perform an Information Criticality Assessment of the Information Systems used within the Urban County Government. This assessment is scheduled to begin sometime after January 1st 2009. The results of this assessment will serve as the guide to correct deficiencies within Information Systems used in the Urban County Government. In addition to the Interhack assessment, the Division of Computer Services will also be performing a complete assessment of the Information Systems in use by the Jail Management System (hardware and software) currently in production within the Division of Community Corrections. This evaluation will specifically target the Jail Management System major components, infrastructure supporting the

application, user and system documentation. We anticipate starting this evaluation in January of 2009.

4. CC Information Technology Purchase Process Needs Enhanced Oversight

For the period December 20, 1999 through June 30, 2008 LFUCG paid Cottrell Consulting \$752,051 for software development performed at Community Corrections, including \$451,476 paid out of CC's Phone Revenue Account. Cottrell has also been the sole provider of enhancements to that system. In an interview conducted during the audit, Community Corrections Senior Administrative Officer Don Leach stated that the jail served as an information technology beta-test site. Beta Testing may be defined as the release of a software version to a limited audience outside of the programming team so that further testing can ensure the product has few programming faults or glitches. Mr. Leach was also given authority by the Director of Community Corrections to approve Cottrell Consulting's work. While Mr. Leach had an extensive background in jail management, he did not have sufficient expertise in information technology system configuration, data and system security, change management, or other technical information technology areas requiring specialized knowledge that may be directly impacted by such software development and upgrades.

It is recommended that the CC jail management system be thoroughly evaluated by the Division of Computer Services to determine if any additional services are needed at this time from Cottrell Consulting or any other information technology vendor. Until that evaluation is completed, the Division of Computer Services should postpone any additional upgrades, enhancements, or modifications to that system. Once that evaluation is completed, any additional CC information technology development or upgrades should be reviewed and approved by Division of Computer Services personnel prior to their purchase.

Director of Community Corrections Response: We concur with this recommendation. We have begun discussions with the Chief Information Officer to implement this recommendation.

Commissioner of Public Safety Response: I concur with Director Bishop's response.

Chief Information Officer Response: The result of the Division of Computer Services evaluation of the Jail Management System application will be a detailed analysis of the current infrastructure in use today. This information will allow the Division of Computer Services to coordinate and integrate future infrastructure purchases, i.e. the purchase or acquisition of Enterprise Class equipment that can be shared between datacenters. The initial goal is to insure that the current infrastructure can support the Jail Management System in use today but also insure that future enhancements meet the overall strategic plan of the Office of the CIO.

5. St. Lucie County, Florida Data on CC Server

Division of Community Corrections servers are the property of LFUCG. We noted that a CC server contained a folder named NewDevelopment\Florida that included six Microsoft Database files (mdb. files) with modification dates of late 2005. We also noted that a CC server contained several

thousand rows of Florida inmate data in an SQL Server Enterprise Manager (identified as the CCSQLSVR). These inmates were consistently listed in this file as Florida residents, including many St. Lucie County, Florida home addresses. Cottrell Consulting's website lists St. Lucie County Jail, St. Lucie County, Florida as a client that went live in 2004 using Cottrell's Jail Management System, the same type of system operating at CC.

We interviewed Harold Cottrell and asked him to explain the St. Lucie data contained on CC servers. Mr. Cottrell stated that he needed the table structure and the code from St. Lucie to put their version on CC's system (this was a system upgrade). He stated the upgrade began in December 2005, and was completed in March 2006. Cottrell explained that the St. Lucie inmate data did not specifically help with the upgrade, but stated that loading the records containing that data helped him set up the correct file structure in CC's servers to ensure CC file compatibility with St. Lucie's JMS version. He stated that leaving the St. Lucie inmate data on CC's servers after he had finished the upgrade was an oversight on his part.

The St. Lucie inmate records residing on the LFUCG server included sensitive personal data, including full names, social security numbers, dates of birth, and complete addresses. It does appear that the social security numbers had been scrambled, i.e., the social security number for inmate John Doe might be included in inmate Jane Roe's record. However, we were informed by IT security personnel that the social security numbers alone would still be valuable for identity theft purposes, regardless of the name associated with them in the individual records. Had this information been hacked from our servers and used for identity theft or other purposes, LFUCG could share legal liability.

Information technology owned by LFUCG exists for the benefit of LFUCG, its agencies, and customers. All St. Lucie, Florida application software and prisoner data should be deleted from CC's servers. Application software loaded onto CC servers should be limited to software purchased by LFUCG as approved by the Division of Computer Services, and only data files owned by LFUCG should reside on the servers.

Director of Community Corrections Response: We concur with this recommendation. The data should have previously been removed from the servers. The data has now been removed.

Commissioner of Public Safety Response: I concur with Director Bishop's response.

Chief Information Officer Response: The Office of the CIO concurs with the Office of Internal Audit's recommendation concerning non-LFUCG data being used and stored on LFUCG equipment. With increased involvement by personnel within the Divisions of Computer Services and Community Corrections, oversight of activities performed by third party vendors as well as internal staff should prevent this from occurring in the future.

6. Information Technology Contract Issues

We noted that several Memorandums of Agreement between Cottrell Consulting and CC were executed by the Director of Community Corrections. The LFUCG Charter specifically states that the

Mayor shall sign all written contracts or obligations of LFUCG. In addition, interviews with CC personnel indicate that CC did not follow the Request for Proposal process when a \$120,000 project was awarded to Cottrell via Memorandum of Agreement in October 2005. This is a violation of CAO Policy #1.

We recommend the LFUCG Charter requirement regarding the proper execution of contracts be strictly adhered to. We also recommend the CAO Policy #1 be strictly adhered to when professional services are sought.

Director of Community Corrections Response: We concur with this recommendation. Ordinance 196-2004 creates some question as to whether CAO Policy #1 is applicable to the phone account funds. However, as stated above, we intend to amend Ordinance 196-2004, and all normal LFUCG controls will apply, including Council approval of contracts and execution of contracts by the Mayor.

Commissioner of Public Safety Response: I concur with Director Bishop's response.

Senior Advisor for Management Response: The Office of Senior Advisor for Management agrees with the recommendations of the Office of Internal Audit.

7. Jail Management System Software Ownership Issue

We were unable to locate any documentation to indicate whether LFUCG owns the software operating within its Jail Management System (JMS), or if there is some type of licensing agreement between LFUCG and Cottrell Consulting. This matter was discussed with Harold Cottrell during our interview with him. Mr. Cottrell stated that this software is not copyrighted, and that there is no license agreement or maintenance agreement between Cottrell Consulting and LFUCG for the CC JMS. He stated during the interview that he provides system programming for clients, but does not charges license fees or maintenance fees.

It is recommended the Department of Law discuss the status of jail management system software ownership with Cottrell Consulting in order to remove any ambiguities regarding software use and authority over the programs and data contained therein.

Director of Community Corrections Response: We concur with this recommendation. We agree that a formal signed agreement stipulating ownership of the Jail Management System should be in place, and we would work with the Law Department to develop such an agreement with Cottrell Consulting.

Commissioner of Public Safety Response: I concur with Director Bishop's response.

Concluding Comments from the Director of Community Corrections:

I have been operating under a framework which was already in existence when I was hired. While I have implemented improvements within that framework, the audit report notes that additional internal controls are needed and I welcome the recommendations for improvement.

I look forward to implementing the changes recommended by the Office of Internal Audit so that the public's confidence in LFUCG's finances will be enhanced.