



INTERNAL AUDIT REPORT

DATE: September 21, 2016

TO: Jim Gray, Mayor

CC: Sally Hamilton, Chief Administrative Office
Glenn Brown, Deputy Chief Administrative Officer
Aldona Valicenti, Chief Information Officer
Ronnie Bastin, Commissioner of Public Safety
Steve Haney, Director of Community Corrections
Phyllis Cooper, Director of Accounting
Susan Straub, Communications Director
Urban County Council
Internal Audit Board

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit
Jim Quinn, CIA, CISA Internal Auditor

RE: Community Corrections State and Federal Fees Audit

Background

The Division of Community Corrections received approximately \$6.45 million in FY 2015 and \$7.16 million in FY 2016 in fees from the Kentucky Department of Corrections, the United States Marshals Service, and the Federal Bureau of Prisons for housing and medical service provided to state and federal inmates. Under contracts and agreements established with these governmental agencies, Community Corrections can bill set per diem rates for each inmate housed for these agencies. Community Corrections maintains an in-house billing system in order to classify, track, and bill each agency on a monthly



basis. Community Corrections is authorized to bill \$75 per day for each federal inmate housed and \$31.34 per day for each state inmate housed during FY 2016. Community Corrections is also authorized to bill a \$33 per hour guard transport fee and a \$0.54 per mile mileage fee to transport federal inmates to and from Community Corrections for court dates and medical appointments. Payments for these billed services are usually received monthly in the form of a check from the Kentucky Department of Corrections for state fees, and by wire transfer to the appropriate LFUCG bank account from appropriate federal agencies for federal fees.

In addition to collecting the above housing and medical fees, Community Corrections also receives various jail allotments and service fee distributions from the Kentucky Department of Corrections on a monthly or quarterly basis, depending on the program. These allotments and distributions were established by Kentucky Revised Statutes and are primarily designed to help jail facilities in Kentucky recover portions of their related administrative costs. The dollar amounts received each year may vary based on annual state budget appropriations and the provisions of the Statutes involved.

The Office of Internal Audit previously audited this process in September 2013.

Scope and Objectives

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

- Contracts and agreements with outside agencies are properly authorized
- Billings are complete, accurate, and timely
- Accounts receivables are maintained and monitored
- Payments are recorded accurately and timely in PeopleSoft
- Payments are reconciled to billings to ensure accurate payments and recordkeeping
- Segregation of duties exists for billing, collection, recording, and deposit processes
- Management oversight processes are in place and effective
- Prior audit findings have been addressed

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 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 our audit included payment activity from July 1, 2014 through April 30, 2016.

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 improve 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 and/or costs associated with the process being audited.

Moderate – Represents a finding requiring timely action by management to mitigate risks and/or costs 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: Errors Noted in the Posting of Payments to PeopleSoft Revenue Accounts

Priority Rating: High

Condition:

We found numerous payment transactions posted incorrectly to PeopleSoft revenue accounts in both FY2015 and FY2016 as indicated below:

- Forty-seven state catastrophic medical payments totaling \$76,857.30 received in FY 2015 and FY 2016 were posted incorrectly to the state medical co-payment revenue account.
- November 2014 state medical co-pay payment totaling \$15,977.15 was posted incorrectly to the state medical catastrophic account.
- March 2015 state medical co-pay payment totaling \$17,056.30 was included with the state housing payment for March and posted incorrectly to the state housing revenue account.
- August 2015 Bureau of Prisons federal housing payment for \$27,340.29 was posted incorrectly to the state housing revenue account.
- September 2015 US Marshal federal housing payment for \$65,858.40 was posted incorrectly to the state housing revenue account.
- December 2015 Bureau of Prisons federal housing payment for \$25,409.87 was posted incorrectly to the prisoner work release revenue account.

Effect:

Such posting errors result in the understatement of one Community Corrections revenue account and the overstatement of another Community Corrections revenue account, causing both accounts to be inaccurate. The Community Corrections revenue accounts cited above all roll into the LFUCG General Fund and are combined and represented by one revenue line item in the LFUCG CAFR (Comprehensive Annual Financial Report). Therefore, the incorrect payment postings cited above do not affect the accuracy of LFUCG's financial statements. However, these incorrect postings could affect the accuracy of revenue budgeting and



management reporting by Community Corrections and the ability to make accurate revenue estimates.

Recommendation:

Payments for federal and state housing and medical fees should be consistently posted to the correct revenue accounts in the PeopleSoft system. These payment postings should be reviewed by management on a monthly basis to ensure their accuracy.

Director of Community Corrections Response:

We will be checking PeopleSoft once a month to make sure the posting is correct and if errors are found we will make the necessary corrections.

Commissioner of Public Safety Response:

I concur with the response from Director Haney. The proposed measure should provide a more accurate accounting stream.

