

A REPORT
TO THE CITIZENS OF SALT LAKE COUNTY
BEN McADAMS, MAYOR



An Audit of the
Salt Lake County Metro Jail Trust Account

May 30, 2013

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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May 30, 2013

Ben McAdams, Mayor
Salt Lake County
2001 S State St #N2100
Salt Lake City, UT 84114-4575

Re: An Audit of the Salt Lake County Metro Jail Trust Account

Dear Mayor McAdams:

We recently completed an analysis of the Salt Lake County Metro Jail Trust Account pursuant to Utah Code Ann. § 17-19a-204. Our purpose was to verify the accuracy and completeness of selected financial records and to assess compliance with certain internal controls. A report of our findings and recommendations is attached.

Our work was designed to provide reasonable but not absolute assurance that records were accurate and complete and that the system of internal controls was adequate. There may be inaccurate or incomplete financial records that were not selected for review. Further, there may also be instances of noncompliance in areas not examined.

We appreciate the time spent by the staff at the Salt Lake County Metro Jail and the cooperation from Pam Lofgreen, Carrie Hackworth, Ben Doctorman, Tom Steffey, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to the Salt Lake County Metro Jail Trust Account during our audit. The staff was friendly, courteous, and very helpful. We trust that the implementation of the recommendations will provide for more efficient operations and better safeguarded County assets. Please feel free to contact me with any questions.

Sincerely,

Gregory P. Hawkins
Salt Lake County Auditor

By Larry Decker CPA, CIA
Sr. Deputy Auditor

cc: Sheriff Jim Winder
Pam Lofgreen, Jail Commander
Carrie Hackworth, Fiscal Manager
Ben Doctorman, Assistant Fiscal Manager

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Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of the Salt Lake County Metro Jail Trust Account. Our purpose was to verify the accuracy and completeness of selected financial records and to assess compliance with selected internal controls.

Conclusion

We performed a four-column bank reconciliation from March 2012 through February 2013 and identified reconciling items. We noted that the Jail Trust Account is maintained in two parallel systems whose balances do not agree. In one of these systems, an Excel spreadsheet, we observed that end-of-month balances frequently did not carry forward to the next month's beginning balance. The beginning balance was changed due to voided checks. Also, inaccuracies or lack of precision in accounting for check numbers in bank reconciliations occurred, and differences with bank-recorded amounts were not reflected and noted.

Findings, Recommendations, and Management Responses

Finding # 1 - Jail personnel could not explain bank reconciliation differences.

Risk Level: Moderate

Standard bookkeeping practice requires that transactions that cause the running balance to increase or decrease be identified.

Personnel made two changes to the running balance, one for \$1,130 and another one for \$135, without supporting documentation, such as a listing of voided checks or bank debits or credits. They readily acknowledged the \$1,130 difference as part of their March 2012 bank reconciliation.

Personnel could not explain the differences, but noted that the Jail trust account had been recorded in two or three accounting systems prior to 2009, including banking systems provided by the commissary contractor. They acknowledged some difficulty in accurately transferring old system data to the current Offender Management System (OMS). In our own bank reconciliation we noted that both the \$1,130 and \$135 likely represented voided checks.

Unaccounted for differences in bank reconciliations can provide opportunity for theft to occur and be concealed.

Recommendation

We recommend that unexplained large changes to the account balance of \$1,130 and \$135 be investigated further for supporting documentation of detailed transactions.

Management Response

See Appendix A

Finding # 2 - Jail personnel did not document explanations for differences between jail financial records and bank statements.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," Section 1.1 defines bank reconciliations as:

"A comparison of the bank statement balance of an account to the agencies general ledger 'cash' balance of that bank account, to identify transactions not common to both documented balances."

We found a net difference in recorded check amounts totaling \$688 between jail financial records and bank statements. Twelve checks cleared for more than the book recorded amount for a total difference of \$1,284. Seven of these checks were marked in the jail financial records as void, with "0" recorded. Five checks cleared for less than the book recorded amount and totalled \$596. None of these items were accounted for in monthly reconciliations.

Personnel reported that differences were due, in some instances, to recording the wrong check number. A check was issued in OMS, perhaps voided, and then reissued, but the correct check number was not recorded in the separate Excel spreadsheet where a running balance was maintained.

Check numbers that are not accurately recorded, or failure to account for differences in amounts between book and bank checks cleared, could create an opportunity to steal funds.

Recommendation

We recommend that check numbers be accurately recorded in the Excel spreadsheet, and that any discrepancies between bank and book recorded check amounts be noted in the reconciliation and resolved with the bank.

Management Response

See Appendix A

Finding # 3 - Jail personnel changed monthly beginning balance amounts without supporting documentation in the running balance.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," Section 8.8.1 states:

"Disbursements out of and receipts into the account shall be recorded, and a running balance shall be maintained."

Personnel changed the beginning month's balance over the previous month's-end ending balance in 8 of 12 months we examined from March 2012 through February 2013. Changes totaled \$9,423 over this period. Typically, the beginning month's balance increased by \$1,000 to \$1,500. The changes were not supported by detail in the running balance, and therefore appeared arbitrary.

The accountant stated that the changes to the monthly running balance totals were based on three types of adjustments: (1) uncashed checks that were remitted to the Unclaimed Property Office pursuant to Utah Code Ann. § 67-4a-210, (2) stale-dated, damaged, destroyed, or lost checks, and (3) charges that personnel could not reconcile to the bank statement. The third cause is discussed as a separate finding.

Seemingly arbitrary changes could be used to cover theft. Supporting detail not placed in the running balance could become forgotten. Some of the detailed information we obtained for these changes had to be reconstructed and was not readily available.

Recommendation

We recommend that arbitrary running balance changes not be made, but that supporting documentation, such as a listing of voided checks, be included to allow for a logical arithmetic flow.

Management Response

See Appendix A

Finding # 4 - Balances between duplicate systems for recording account activity did not match.

Risk Level: Moderate

As one of the underlying assumptions of Generally Accepted Accounting Principles (GAAP), financial information must be relevant, reliable, and prepared in a consistent manner.

The balance in the jail's accounting database did not match the duplicate system used to reconcile with bank statements.

Some differences may have resulted from an inability to transfer information from prior prisoner banking systems to the current accounting database. Also, some differences were due to human error in manually transferring information from one system to another. We did not isolate all transactions creating the differences due to time constraints and difficulty in extracting data from the accounting database.

When balances in two parallel systems do not agree, the amount actually on hand cannot be ascertained with certainty.

Recommendation

We recommend that account balances in the parallel financial record systems be reconciled to provide entries and an account balance that matches between the two systems.

Management Response

See Appendix A

Finding # 5 - Checks numbers were changed on the running balance without a readily apparent audit trail.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 8.8.1, states:

"All checking accounts used for disbursements shall be reconciled to the bank statement at least monthly."

In the February 2013 bank reconciliation, we noted 8 checks totaling \$655.50 and included on our outstanding check list but not the outstanding check list prepared by Jail personnel. We could not readily explain or cross-reference these items.

Checks are frequently voided due to damage or loss, and then re-issued under a new check number. Voided checks are re-entered as "0" in the Excel spreadsheet running balance. At the time of our reconciliation, some checks had been voided after Jail personnel performed their own monthly reconciliation. Personnel identified differences noted above as re-issued checks whose original numbers had been voided. They matched these differences to since-voided checks used on their outstanding check list.

Without a clear audit trail of changes to check numbers, account manipulation could occur to conceal theft of funds.

Recommendation

We recommend that Jail management devise a more clear and consistent audit trail in tying voided checks to their re-issued counterparts.

Management Response

See Appendix A

Finding # 6 - The commissary vendor could not accurately calculate its monthly bill for gross sales.

Risk Level: Low

The agreement between Salt Lake County and the commissary contractor, Section 2.C.(1) states:

"KCN shall bill the County on a monthly basis for Gross Sales made during the immediately preceding period."

The amount billed never balanced with commissary purchases recorded in the Jail's OMS system. Checks issued out of the Jail trust account to the commissary contractor, typically exceeding \$100,000 per check, were sent to them based on an agreed-upon, or settled amount between the two parties.

System interface issues between the contractor and the Jail have created billing differences. These differences tend to occur most frequently with \$10 quick kits, or welfare kits, that prisoners can purchase upon arrival at the Jail.

The resulting difference between Jail and contractor records requires a time-consuming process of communicating with the contractor to settle upon an amount the Jail will remit to them. The contractor has always agreed to the Jail's amount. This process is not only inefficient but also risky as the contractor could dispute the amount it is owed.

Recommendation

We recommend that further effort be undertaken to ensure consistency between billing to the Jail from the commissary contractor, and commissary sales recorded in OMS.

Management Response

See Appendix A

Finding # 7 - Duplicate systems were used to track identical transactions.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 8.8.1 states:

"Each agency shall acquire and maintain the systems necessary for the accurate receipting, recording, accounting, and safekeeping of public money."

The Jail uses OMS software for recording funds received from prisoners, additions to their accounts, deletions for commissary purchases, and other items, such as doctor co-pays. In addition to OMS, the Jail maintains a running balance in an Excel spreadsheet. The spreadsheet lists all checks issued and deposits made. Personnel use the spreadsheet as the basis for reconciling to the bank statement. Also, the Jail maintains three different systems – OMS, QuickBooks, and Excel – for recording payments and deductions from prisoner accounts for pay-for-stay obligations.

The account balance is more readily tracked and differences with the bank statement can more easily be identified by using an Excel spreadsheet. The spreadsheet also provides a check against OMS system transactions. For auditing purposes, detailed transactions are easier to download from Excel than from OMS. Regarding pay-for-stay accounting systems, OMS does not have a feature to invoice inmates once they are released from jail. Therefore, QuickBooks is used to generate invoices.

Duplicate systems ineffectively use personnel time to manually enter transactions from one system to another. Also, mis-entering of data creates errors and confusion as to the correct account balance. Personnel feel that OMS effectively and accurately tracks individual accounts, but reconciling OMS to bank statement totals has been difficult for them to achieve.

Recommendation

We recommend combining accounting systems into one, providing it allows for auditing of transactions.

ACTION TAKEN: As a positive step towards integration of the two systems, we noted that the monthly outstanding check list used in the reconciliation has recently been derived electronically from OMS instead of manually from the spreadsheet.

Management Response

See Appendix A

Additional Information

Background

The Jail Trust Account is used to hold prisoner funds. When prisoners are booked into jail, all funds are removed from them, and held in this account. Money can be added to individual prisoner accounts by outside parties, including friends and relatives. Prisoners can use their funds to purchase commissary items or for other expenses that may occur. Funds are given back to the prisoner upon their release from jail. Up to \$50 is released in cash, and the rest is distributed by check. Checks are also issued from this account to the commissary contractor, the Salt Lake County Treasurer, and the State of Utah. Funds to the Treasurer are issued to reimburse the County for such items as doctor visit co-pays, DNA testing, and pay-for-stay payments. Prisoner accounts are tracked using Offender Management Software (OMS).

Scope

Our work included a formal examination of financial records related to the following key internal controls, to the degree applicable:

- Reconcile the account as recorded in the Excel spreadsheet to the bank statement for the past year.
- Identify reconciling items in the account.
- Determine if any unexplained reconciling items occurred in the account.
- Identify the types of parties to whom disbursements were made from the account.

Our examination period covered up to twelve months ending February 28, 2013. In addition to reviewing financial records, we reviewed and examined current practices through observation to assess compliance with Countywide policy and standard business and internal control practices.

Sheriff's Office Management Response to Jail Trust Account Audit

Finding #1

We recommend that unexplained large changes to the account balance of \$1,130 and \$135 be investigated further for supporting documentation of detailed transactions.

Response: We agree that the \$135 and the \$1,130 are related to checks which have been voided. We will discontinue the Excel file as a parallel system and solely utilize the Offender Management System "OMS". All adjustments that are made have supporting documentation, and going forward, the documentation will be attached to the monthly reconciliation supporting the need for the adjustment.

Finding #2

We recommend that check numbers be accurately recorded in the Excel spreadsheet, and that any discrepancies between bank and book recorded check amounts be noted in the reconciliation and resolved with the bank.

Response: We will discontinue the Excel file as a parallel system. We will note any differences between OMS records and the checks listed on the bank statement in the bank reconciliation. We are continually training staff involved in the check writing process to reduce the number of errors.

Finding #3

We recommend that arbitrary running balance changes not be made, but that supporting documentation, such as a listing of voided checks, be included to allow for a logical arithmetic flow.

Response: Originally, the ending monthly balance in the excel spreadsheet was not linked to the next months beginning balance. Voided checks were added to the next month's beginning balance to reflect the "running balance". Within the scope of the audit period, we had corrected this oversight and it has been corrected for over a year. Documentation was available (but not attached) to the bank reconciliation in regards to these amounts and were provided to the Auditor. Voided checks are now a reconciling item individually identified in the bank reconciliation.

Finding #4

We recommend that account balances in the parallel financial record systems be reconciled to provide entries and an account balance that matches between the two systems.

Response: We will discontinue the Excel file as a parallel system and solely utilize the Offender Management System “OMS”. All differences between the bank statement and OMS will be thoroughly researched and documented during the reconciliation process.

Finding #5

We recommend that Jail management devise a clearer and more consistent audit trail in tying voided checks and to their re-issued counterparts.

Response: In the information provided by the Auditor’s in support of their findings; we dispute one check on their outstanding list. The Auditor is including check number 123226 in the amount of \$514.78 as outstanding, where we have not included that check as outstanding. Check 123226 was voided 4/16/2012. Check number 120840 was issued to the payee and that check cleared our bank on 4/18/2012. This check referenced the prior check number. This clearly was not an outstanding check as shown by the Auditor. We agree that there are two checks on the Auditor’s list which were not included on our outstanding list in the amount of \$1.32 which should have been. Using the Auditor’s work papers we provided an explanation for all 8 checks including the remaining \$139.40 in outstanding checks listed.

It is our policy when reissuing a check to void the original check including putting a stop payment on the original check. We then reference the original check number and reason for reissuance on the new check to clearly show the justification for printing a new check. There is a clear audit trail in OMS to mitigate any manipulation of funds. The Auditor is referring to our duplicate Excel spreadsheet reconciliation when referring to a lack of clear audit trail. We will discontinue utilizing the Excel file and rely solely on OMS.

Finding #6

We recommend that further effort be undertaken to ensure consistency between billing to the Jail from the commissary contractor, and commissary sales recorded in OMS.

Response: KCN’s invoicing system calculates pricing slightly differently than OMS. Vendor recognizes that this is a problem with their system. KCN accepts the amounts calculated in OMS (our system) as the correct amounts, and acknowledges that this is the correct amount in writing before any invoice is paid. This will continue while dealing with this vendor. Salt Lake County is paying based on data calculated in OMS. We believe all reasonable protections are taken in this regard.

Finding #7

We recommend combining accounting systems into one, providing it allows for auditing of transactions.

Response: We will discontinue the use of Excel spreadsheets to reconcile to the bank statements and solely utilize OMS for all account tracking. Unfortunately, as stated above, OMS does not have invoicing capabilities so we will continue to utilize Quickbooks for Pay for Stay. As additional programming and improvements are made to OMS, we will adjust our processes accordingly.