June 19, 2017

Hon. John E. Zaruba, County Sheriff
DuPage County
Wheaton, IL 60187

Dear Sheriff Zaruba,

The Office of the County Auditor has completed an audit of the Commissary Account (Account) maintained by the County Sheriff’s Office. The audit consisted of examining the internal controls, records, receipts and disbursements of the Account for the fiscal year ended November 30, 2015. The results of the audit and the Sheriff’s responses are presented herein.

Summary of Findings

- All transactions that were examined were found to be consistent with the intent of the Account;
- Significant disbursements from the Account were properly documented;
- A contractor worked without a contract during the audit period;
- Purchases of equipment totaling over $5,000 may not be in compliance with State statute;
- Capital improvements to the Jail paid from the Account were not included in the County’s fixed asset records; and,
- The internal controls related to the Account could be improved.

Background

The Commissary Account (Account) accounts for the profits earned on inmate commissary purchases. Funds in this Account are required by Illinois Administrative Code County Jail Standards to be used for inmate welfare purposes.

The Account’s primary source of funding is commissions on inmate commissary purchases. Another significant source of funding is commissions received from telephone companies, resulting from revenues generated by collect calls and phone cards purchased by inmates for use with telephones located within the jail. Monthly commission checks are received by the Sheriff’s Office and are deposited into the Account.

As of the end of fiscal year 2015, the Account had a balance of $2,455,494 maintained in a non-interest bearing demand deposit account at a local bank. During FY 2015, $1,840,179 was deposited into the Account and $1,794,537 was disbursed. The Account is included in the County’s Fiscal Year 2015 Comprehensive Annual Financial Report (CAFR) as an agency fund.
Audit Objectives

The objectives of the audit were to evaluate the procedures related to the processing of Account receipts and disbursements during fiscal year 2015 in order to determine:

1. Amounts are properly received and recorded, and that they are deposited intact, and on a timely basis;
2. Disbursements are made for allowable purposes, are properly authorized, recorded, and supported by appropriate documentation; and,
3. The reconciled bank account balance of the Account and the County’s general ledger for the audit period are in agreement.

Audit Procedures

The audit procedures included reviewing pertinent accounting records, banking transactions and other supporting documentation related to the deposit and disbursement of Account funds by the Sheriff’s Office. Interviews were conducted with the County Sheriff and Sheriff’s Office management staff as deemed necessary in order to obtain an understanding of the procedures and internal controls related to the financial transactions of the Account. In addition, expenditures from the Account related to goods and services under contract were examined to ensure compliance with contract terms.

The County Auditor examined all banking records and transactions of the Account for fiscal year 2015. There were 100 deposits into the Account and 336 checks drawn on the Account during the audit period.

Audit Findings and Recommendations

Internal Controls

The County Auditor obtained an overview of the internal controls relative to the Account. The Account custodian is a part-time contractor who is paid from the Account whose responsibilities include:

- Preparing checks written on the Account;
- Signing checks for account disbursements less than $500 and co-signing checks above $500;
- Preparing and processing bank account deposits;
- Reconciling the Account bank statement and accounting records;
- Maintaining the Account receipt and disbursement documentation;
- Determining the amounts to be transferred from the Inmate Account to the Commissary Account; and,
- Preparing reports for Sheriff’s Office supervisory staff.

Many of the tasks performed by the Account custodian are inconsistent with a proper segregation of duties. This internal control weakness is compounded by the fact that there is limited supervisory review of the tasks, records, reports, etc., related to the Account. These factors represent significant control weaknesses, and as a result, the risk of defalcation is unnecessarily high.

The County Auditor recommends that the duties related to administration of the Account be assigned to different individuals so that no one person has sole responsibility for the custody, recording, and authorization of Account funds and transactions. It is also recommended that there is supervisory review of the bank account reconciliations, Account deposits, and Account disbursements.
A procedures manual was provided to the County Auditor outlining the general guidelines pertaining to the administration of the Account. However, there were no detailed procedures documenting the maintenance of Account records, financial transactions, reporting, or supervisory review. It is recommended that the Sheriff's Office prepare a more detailed procedures manual for the administration of the Account.

**Response to Auditor**

The Sheriff's Office has reorganized the accounting function which has resulted in additional staff available to assist with the administration of the Account. This has enhanced the segregation of duties in the commissary area. The reorganization also provides for the supervisory review of Account transactions and bank reconciliations. A procedures manual detailing the specific operations of the Commissary Account has been prepared.

**Bank Deposits**

The total amount of Account deposits made in fiscal year 2015 was $1,779,410. The majority of the deposits were for reimbursements from the Inmate Account for inmate purchases and commissions paid to the Sheriff on the sale of phone cards. Inmate reimbursements for phone card sales were $760,639, or 43% of total deposits, and inmate reimbursements for commissary purchases were $653,939, or 37% of total deposits. Commissions paid to the Sheriff for phone card sales were $323,546, or 18% of total deposits with miscellaneous reimbursements for services provided to inmates comprising the balance.

There were 100 deposits made into the Account during the audit period. All 100 deposits processed into the Account by the Account custodian during fiscal year 2015 were examined. The deposits are taken to the bank weekly by a Sheriff's Office Deputy who is not involved in the accounting or collection of the funds. All deposits were consistent with the nature of the account and there were no significant exceptions noted.

**Account Disbursements**

The total amount of checks written on the Account in fiscal year 2015 was $1,729,310. The majority of the expenditures were for inmate telephone services at $765,095, or 44% of the total, and commissary items and related services at $442,207, or 26% of the total. Over $225,000 was spent for professional services for inmate counseling, hygienic services and Account administration. An additional $190,962 was spent on capital improvements to the jail for wiring and infrastructure upgrades.

There were 336 checks written on the Account during the audit period including 8 voided checks. Audit procedures found no significant exceptions related to the voided checks. The remaining 328 checks were examined on a sample basis. No significant exceptions were found with the 74 sample checks.

As a contractor, the Account custodian prepares, but does not sign, the checks for her bookkeeping services. Checks payable to the Account custodian were properly documented and no exceptions were noted.

**Bank Statement Reconciliation**

Audit procedures identified no material exceptions related to the bank statement reconciliations for the Account. An internal control weakness exists, as there is no supervisory review of the Account bank statement reconciliations. It is recommended that the Account bank statement reconciliations be reviewed by a supervisor. All exceptions listed on the bank reconciliations should be investigated, corrected, and documented.
Hon. John E. Zaruba, County Sheriff

During the review of bank statement reconciliations, an inadvertent un-cleared journal entry was identified on several monthly bank reconciliations generated from the Account’s QuickBooks software. While this item did not affect the Account’s cash balance, the amount of the entry did have a material effect on the Account. The Account custodian stated that she has been unable to clear the journal entry so it remained on the monthly bank reconciliations as a reconciling item. At the time, it was recommended that the Account custodian work with the software vendor to rectify this issue. Subsequent to the audit fieldwork, this issue was resolved.

It was noted that the Account’s QuickBooks software records do not include revenue and expenditure category information. It is recommended that category information consistent with the County’s general ledger chart of accounts be included in the transactions recorded in the QuickBooks system to improve the usefulness of reports to Sheriff’s Office management.

Currently the Commissary Account is included in the County’s Fiscal Year 2015 Comprehensive Annual Financial Report (CAFR) as an agency fund. According to the Governmental Accounting Standards Board, the definition of an agency fund is:

*Agency funds* should be used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Given the nature of the financial transactions, the type of expenditures, and the source of revenues, the Account would be more appropriately classified as a special revenue fund for financial reporting purposes. While the administration of the Account should remain under the auspices of the County Sheriff, it is recommended that the Finance Department examine whether the Account should be reclassified as a special revenue fund in the County’s CAFR and financial system.

The reconciled bank account balance of the Account and the County’s general ledger as of November 30, 2015 are in agreement.

**Response to Auditor**

*As previously noted, the reorganization of the accounting function has resulted in increased supervisory oversight of the bank reconciliation process. The revenue and expenditure account information has been added to the transactions recorded in QuickBooks. The classification of the Account as an agency fund for financial reporting purposes should be reconsidered by the Finance Department and the County’s external financial auditors.*

**Contract Administration**

Sheriff’s Office supervisory personnel provided eight contracts for goods and services that are paid from the Account. Seven of the contracts are for vendors or contractors that provide goods and services for the inmates and one contract is for capital improvements to the Jail. The type of contracted goods and services and the amounts spent in fiscal year 2015 are:

1. Inmate telephone services and systems for $765,095;
2. Commissary items and deposit services for $442,207;
3. Electrical wiring upgrades for $190,962;
4. Inmate social services for $100,000;
5. Online legal research materials for $46,068;
6. Commissary Account and Inmate Account bookkeeping services for $19,989;
7. Inmate barber services for $18,880; and,
8. Chaplain services for $15,270.
The Account custodian stated that she maintains a copy of the contracts for the contractors and reviews their invoices for accuracy prior to payment; however, the Account custodian does not maintain a copy of the contracts for the other vendors and does not verify the rates charged. It is recommended that rates charged by vendors be agreed to the contracts on file with the Sheriff's Office.

Audit procedures identified one contractor who did not have a contract on file for 2015. The contractor was paid at the rate listed in his prior contract that expired at the end of 2014. The contractor received $20,200 in fiscal year 2015 for counseling services. It is recommended that all contractors have a valid signed contract on file with the Sheriff’s Office prior to providing services to jail inmates.

Additional audit procedures were performed to verify that amounts paid to contractors were properly reported to the IRS for tax purposes. No exceptions were noted for the 2014 and 2015 tax years.

It was noted that one contract paid from the Account was for capital improvements to the Jail building totaling $190,962. Audit procedures could not identify the contracted improvements included in the County’s fixed asset records. The total cost of the capital improvements to the Jail should be included in the County’s fixed asset records as donated capital. The County Auditor recommends that the Sheriff contact the Finance Department and provide the capital improvement documentation needed for entry into the County’s fixed asset system.

Audit procedures also identified two purchases of equipment from the Account that were greater than $5,000. Multiple purchases of inmate televisions totaling $22,428 and gym equipment totaling $8,586 were made in fiscal 2015. State statute 55 ILCS 5/3-6018 requires that:

“Purchases of equipment by the sheriff shall be made in accordance with any ordinance requirements for centralized purchasing through another county office or through the state which are applicable to all county offices.”

The County Auditor recommends that the Sheriff’s Office contact the State’s Attorney to determine whether the purchase of equipment from the Account falls under County Procurement policies and complies with State statute.

**Response to Auditor**

*The Sheriff’s Office has signed contracts with each contractor currently providing services to jail inmates. Additionally, accounting staff have been instructed to verify all charges for services for the contracts paid from the Commissary Account. The Sheriff will coordinate with the Finance Department regarding the inclusion of capital equipment and/or capital improvements purchased from Commissary funds in the County’s fixed asset records. The State’s Attorney’s Office has been contacted and is researching the applicability of the procurement statutes and County procurement policy on acquisitions made from the Account.*

**Summary of Recommendations**

- The duties related to administration of the Account should be assigned to more than one individual in order to provide adequate segregation of duties. *This has been achieved through a reorganization of the accounting function in the Sheriff’s Office.*
- There should be supervisory review of the bank account reconciliations, Account deposits, and Account disbursements. *Assigned to the supervisor of the Sheriff’s Office accounting function.*
- Any exceptions identified during the reconciliation process should be investigated, corrected, and documented. The documentation should have supervisory review and be
included with the bank reconciliation reports. **Assigned to the supervisor of the accounting function.**

- Account bookkeeping software records should include revenue and expenditure categories to improve the usefulness of Account financial reports. **The QuickBooks transactions will include this information.**

- The Commissary Fund should be reclassified as a special revenue fund instead of an agency fund. **While the administration of the Commissary Fund should remain under the Sheriff’s Office, the classification for external financial reporting should be reviewed by the Finance Department and the County’s external financial auditors.**

- The Sheriff’s Office should prepare a procedures manual regarding the administration of the Account. **A revised procedures manual specific to the Commissary Account has been prepared.**

- Contractors should have a valid signed contract on file with the Sheriff’s Office prior to providing services to jail inmates. **All contractors providing services have a current contract on file.**

- The Sheriff’s Office should contact the Finance Department to provide documentation necessary to add capital improvements to the Jail paid by the Account to the County’s fixed asset system. **This issue will be discussed with the Finance Department.**

- The Sheriff’s Office should contact the State’s Attorney to determine whether equipment purchases paid by the Account comply with State statute and should follow County procurement policies. **The State’s Attorney’s Office is researching this matter.**

I want to express my sincere appreciation for the generous assistance provided by your Office and your staff and the timely and comprehensive response to the recommendations made in this report. If you have any questions, please contact me.

Sincerely,

**OFFICE OF THE COUNTY AUDITOR**

Bob Grogan, CPA, CFE
County Auditor

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Attachment
RTG:egp
#16-89
# OFFICE OF THE COUNTY AUDITOR
## COUNTY SHERIFF CASH ACCOUNT AUDIT - COMMISSARY ACCOUNT
### CASH BALANCE - REVENUES AND EXPENDITURES - FISCAL YEAR 2015

<table>
<thead>
<tr>
<th>Month</th>
<th>December</th>
<th>January</th>
<th>February</th>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
<th>July</th>
<th>August</th>
<th>September</th>
<th>October</th>
<th>November</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning Balance</strong></td>
<td>$2,470,621.23</td>
<td>$2,436,684.86</td>
<td>$2,467,110.44</td>
<td>$2,483,200.59</td>
<td>$2,324,036.94</td>
<td>$2,371,277.67</td>
<td>$2,426,632.62</td>
<td>$2,424,804.80</td>
<td>$2,410,579.18</td>
<td>$2,506,402.65</td>
<td>$2,540,391.92</td>
<td>$2,497,226.01</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>142,326.95</td>
<td>147,966.50</td>
<td>138,952.16</td>
<td>150,381.16</td>
<td>171,829.47</td>
<td>157,303.37</td>
<td>150,292.48</td>
<td>147,875.99</td>
<td>136,065.08</td>
<td>137,430.82</td>
<td>149,915.38</td>
<td>149,270.41</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>176,263.32</td>
<td>117,540.82</td>
<td>122,862.01</td>
<td>306,544.81</td>
<td>124,388.74</td>
<td>101,948.42</td>
<td>134,120.30</td>
<td>180,101.61</td>
<td>40,241.61</td>
<td>103,841.55</td>
<td>193,681.29</td>
<td>118,370.04</td>
</tr>
<tr>
<td><strong>Ending Balance</strong></td>
<td>$2,436,684.86</td>
<td>$2,467,110.44</td>
<td>$2,483,200.59</td>
<td>$2,324,036.94</td>
<td>$2,371,277.67</td>
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<td>$2,540,391.92</td>
<td>$2,497,226.01</td>
<td>$2,528,126.38</td>
</tr>
</tbody>
</table>

### Revenue
- REIMB FOR PHONE CARD PURCHASES: $58,368.76
- REIMB FOR COMMISSARY PURCH & COMMISSIONS: $53,290.31
- COMMISSION ON PHONE CARD SALES: $26,464.44
- KEFEE ACCESS SURCHARGES: $3,464.00
- REIMB FOR BARBER SERVICES: $1,193.48
- REIMB FOR HYGIENE SUPPLIES: $388.90
- REIMB FOR PRIOR INDIGENT COSTS: $184.39
- MISCELLANEOUS: $90.87
- REIMB FOR POSTAGE: $-328.74
- REIMB FOR METRA TICKETS: $39.50

**Total Revenue:** $142,326.95

### Expenses
- OPERATING SUPPLIES: $39,657.11
- DATA PROCESSING EQUIP - SMALL VALUE: $-39,549.56
- FURN/MACH/EQUIP - SMALL VALUE: $1,678.62
- WEARING APPAREL: $1,232.42
- TRAVEL: $143.75
- INSTRUCTION & SCHOOLING: $413.61
- WIRED COMMUNICATIONS: $125,518.06
- WIRELESS COMMUNICATIONS: $52.00
- REPAIR & MAINT. - OTHER EQUIP: $2,615.27
- RENTAL OF EQUIPMENT: $96.00
- POSTAGE & POSTAL CHARGES: $590.81
- PROFESSIONAL SERVICES: $9,863.50
- BUILDING IMPROVEMENTS: $-74,000.00

**Total Expenses:** $176,263.32

**Total:** $1,779,409.77