



OFFICE OF THE COUNTY AUDITOR

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January 30, 2019

Hon. James Mendrick, County Sheriff
DuPage County
Wheaton, IL 60187

Dear Sheriff Mendrick:

The Office of the County Auditor has completed an internal audit of the Commissary Account (Account) maintained by the County Sheriff's Office. The internal audit consisted of examining the internal controls, records, receipts and disbursements of the Account for the fiscal year ended November 30, 2018. The results of the audit are presented herein.

Results

- All transactions that were examined were found to be consistent with the intent of the Account;
- Significant disbursements from the Account were properly documented;
- Some purchases from the Account were not made in compliance with the County's Procurement Policy.
- 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.

Objective

The objectives of the audit were to evaluate the procedures related to the processing of Account receipts and disbursements during fiscal year 2018 in order to determine:

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

Background / Audit Scope

The Commissary Account (Account) maintains the earnings derived from inmate commissary purchases at the County Jail. Funds in the Account are required by Illinois Administrative Code County Jail Standards to be used for inmate welfare purposes.

The County Sheriff has a contract with a vendor who offers a turn-key jail commissary system. The vendor provides an accounting system to administer inmate accounts as well as functions for additions to be made to an inmate's personal account. The vendor also supplies the products ordered by the inmates. The primary source of income to the Account is the difference between the price paid for items purchased by the inmates and the item's cost. Another significant source of funding into the Account are commissions received from the phone company for the inmates use of jail telephones, prepaid phone cards used by inmates for phone calls, and a commission on managed content provided by the vendor who supplied tablet computers for inmate use. These receipts are prepared for deposit into the Account by the part-time contractors who administer the day-to-day operation of the Account. Disbursements from the Account pay for the contracted service providers, supplies purchased from the vendor and items purchased for the benefit of the inmates.

As of the end of fiscal year 2018, the Account had a balance of \$2,622,559 maintained in a non-interest bearing demand deposit account at a local bank. During FY 2018, \$1,265,373 was deposited into the Account and \$1,281,289 was disbursed. The Account is classified as an agency fund in the County's general ledger and for financial reporting purposes.

The internal 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 2018. There were 104 deposits into the Account and 298 checks and transfers from 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 responsibilities of the two part-time contractors who are paid from the Account 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 contractors administering the Account 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 an internal control weaknesses. A positive compensating control is the supervisory review of the bank reconciliations. The County Auditor recommends that the some of the duties related to the administration of the Account be assigned among different individuals so that no one person has sole responsibility for the custody, recording, and authorization of Account funds and transactions.

A previous internal audit performed by the County Auditor noted that the services performed by the Account administrators should be evaluated to ascertain whether they are functioning as independent contractors or if an employer-employee relationship exists. It is suggested that the County Sheriff consult with the State's Attorney's Office and the Human Resources Department regarding this status.

There were some procedures documenting the maintenance of Account records, financial transactions, reporting, or supervisory review but these have not been updated for changes within the department. It is recommended that the Sheriff's Office prepare a more detailed, updated procedures manual for the administration of the Account.

Bank Deposits

The total amount of Account deposits made in fiscal year 2018 was \$1,265,373. 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 \$475,563, or 38% of total deposits, and inmate reimbursements for commissary purchases were \$585,876, or 46% of total deposits. Commissions paid to the Sheriff for phone card sales were \$157,328, or 12% of total deposits with miscellaneous reimbursements for services provided to inmates comprising the balance.

There were 28 deposits and 72 transfers made into the Account during the audit period. All of the transfers and a sample of the physical deposits processed into the Account by the Account administrator during fiscal year 2018 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. With four exceptions, deposits were consistent with the nature of the account and there were no significant exceptions noted. Four transfers into the Account should have been made to another account under the control of the Jail personnel. These errors were not significant, and they were corrected by bookkeeping staff during the monthly reconciliation process.

Account Disbursements

The total amount of checks written on the Account in fiscal year 2018 was \$1,272,947. The majority of the expenditures were for inmate telephone services at \$471,123, or 37% of the total, and commissary items and related services at \$374,656, or 29% of the total. Over \$230,000 was spent for professional services for inmate counseling, hygienic services and

Account administration. An additional \$65,811 was spent on capital improvements to the jail for wiring and infrastructure upgrades.

There were 295 checks written on the Account during the audit period including 4 voided checks. Audit procedures found no significant exceptions related to the voided checks. The remaining 291 checks were examined on a sample basis. No significant exceptions were found with the 69 sample checks.

As contractors paid from the Account, the two Account administrators prepare, but do not sign, the checks for their bookkeeping services. Checks payable to the Account administrators were properly documented and no exceptions were noted.

Bank Statement Reconciliation

Bank statements are prepared in a timely manner and are reviewed by an individual without deposit or disbursement responsibility over the account.

Account Classification

Currently the Commissary Account is classified as an agency fund in the general ledger and for external financial reporting purposes. 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 functions as a special revenue fund. It is recommended that the Finance Department examine whether the Account should be reclassified as a special revenue fund in the County's general ledger and for external financial reporting purposes.

Contract Administration

The County Auditor examined contracts for goods and services that are paid from the Account. Most of the contracts are for vendors or contractors that provide goods and services for the inmates. It was noted that one contract is for capital improvements to the Jail. The type of contracted goods and services and the amounts spent in fiscal year 2018 are:

1. Inmate telephone services and systems	\$471,123
2. Commissary items and deposit services	379,053
3. Inmate social services	125,000
4. Online legal research materials for the Jail inmates	50,256
5. Contractual bookkeeping services	39,821
6. Mental health services	31,138
7. Inmate barber services	20,712
8. Chaplain services	14,732

The Account administrator stated that she maintains a copy of the contracts for the service contractors (barber, social worker, chaplain) and reviews their invoices for accuracy prior

to payment; however, the Account administrator does not maintain a copy of the contracts for the other vendors and does not verify the rates charged. It is recommended that the Account administrator be provided with all contracts so that the rates charged by vendors can be agreed to the contracts on file with the Sheriff's Office.

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 2018 tax years.

Capital Expenditures

It was noted that two payments for capital improvements to the Jail totaling \$65,811, representing Phase 2 of wiring upgrades begun during FY2015. The Account administrator did not have a completed contract for this phase of the improvement. Although the County Auditor was informed that the Sheriff's Office worked with the County's Facilities Management Department on certain technical aspects project, the contract with the vendor was not processed in accordance with the County's Procurement Ordinance. Further, 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. 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.

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.
- The independent contractor status of the the Account administrators should be evaluated to determine if an employer-employee relationship isn't more applicable.
- The Commissary Fund should be reclassified as a special revenue fund instead of an agency fund.
- The Sheriff's Office should prepare an updated procedures manual regarding the administration of the Account.
- 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.
- It is suggested that the Account administrators be provided with copies of all contracts paid from the Account so that the terms of the contracts can be monitored prior to issuing payments.
- The Sheriff's Office should follow County procurement policies for acquisitions made from the Commissary Account.

Hon. James Mendrick, County Sheriff

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January 30, 2019

I want to express my sincere appreciation for the generous assistance provided by your Office and your staff. If you have any questions, please contact me.

Sincerely,

OFFICE OF THE COUNTY AUDITOR

A handwritten signature in black ink, appearing to read "Bob Grogan", written in a cursive style.

Bob Grogan, CPA, CFE
County Auditor

cc: County Board
Robert Berlin, State's Attorney
Tom Cuculich, County Administrator
Margaret Ewing, Director of Human Resources
Paul Rafac, Chief Financial Officer

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