



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 Jail Inmate Special Account (Inmate Account) maintained by the County Sheriff's Office. The internal audit consisted of examining the internal controls, records, receipts and disbursements of the Inmate 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 Inmate Account;
- Significant disbursements from the Inmate Account were properly documented;
- The Inmate Account balance does not agree to the total of the individual inmate balances; and,
- The internal controls related to the Inmate Account could be improved.

Objective

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

- The amounts are properly received and recorded, and that they are deposited intact, and on a timely basis;
- Disbursements are made for allowable purposes, are properly authorized, recorded, and supported by appropriate documentation; and,
- The aggregate of individual inmate accounts, the reconciled bank account balance of the Inmate Account, and the County's general ledger for the audit period are all in agreement

Background / Audit Scope

The Jail Inmate Special Account (Inmate Account) administers funds for inmates that are detained at the DuPage County Jail. The Sheriff's Office utilizes an inmate accounting system that maintains a detailed accounting record for each jail inmate. This system also provides a means for adding funds to an inmate's account as well as interfacing with the Jail's commissary system. An inmate may use their funds on account to purchase commissary items; pay for medical fees, phone calls, post bond to the Clerk of the Circuit Court; or, disburse funds to a third party. Upon release, inmates are issued a check for the unexpended funds held in their account. The Sheriff's policy is to void checks to released inmates that have not been cashed after six months of issuance. In these situations, the amount of the payments are transferred from the Inmate Account to the Jail Sedentary Account.

As of the end of fiscal year 2018, the Inmate Account had a balance of \$165,524 maintained in a non-interest bearing demand deposit account at a local bank. This balance should represent the sum of the funds in each of the individual inmate's account. During FY 2018, \$1,415,610 in receipts was deposited into the Inmate Account and \$1,505,013 was disbursed. The Inmate Account is classified as an agency fund in the County's general ledger and in the Comprehensive Annual Financial Report (CAFR).

The audit procedures included reviewing pertinent accounting records, banking transactions and other supporting documentation related to the deposit and disbursement of Inmate 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 Inmate Account.

The County Auditor examined banking records and transactions of the Inmate Account bank account for fiscal year 2018. There were 828 deposits and transfers into and 2,809 checks and transfers from the Inmate Account during the audit period.

Audit Findings and Recommendations**Internal Controls**

The County Auditor obtained an overview of the internal controls relative to the Inmate Account. It appeared that the internal controls as described could be improved. Two part-time contractors are primarily responsible for the administration of the Inmate Account, commissary bank account and the related inmate sedentary bank account. The contractors are paid from the Sheriff's Commissary Account. Among their responsibilities relative to the Inmate Account are:

- Preparing checks written on the Inmate Account;
- Signing checks for account disbursements less than \$500 and co-signing checks above \$500;
- Handling amounts received by mail or in-person from, or on behalf of, inmates;
- Preparing and processing in-person bank account deposits;
- Reconciling the Inmate Account bank statement and accounting records;

- Maintaining the Inmate Account receipt and disbursement documentation;
- Entering non-inmate accounting system receipt and disbursement transaction information into the individual inmate account records;
- Submitting commissary orders for inmates and trustees;
- Determining the individual inmate account balances to be escheated to the State; and,
- Preparing reports for Sheriff's Office supervisory staff.

Many of the tasks performed by the Inmate 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 Inmate Account. The recent addition of an assistant has partially mitigated the risk; however, specific tasks should be allocated to each individual to enhance internal controls. A positive compensating control is that the bank reconciliations are reviewed by a Sheriff's Office supervisor.

The County Auditor recommends that the duties related to the administration of the Inmate Account be assigned among different individuals so that no one person has sole responsibility for the custody, recording, and authorization of Inmate Account funds and transactions.

While a procedures manual exists for the inmate accounting system, the specific duties relative to the administration of the Inmate Account is not fully documented. It is recommended that the procedures be reviewed and revised accordingly.

Bank Deposits

There were 828 deposits made into the Inmate Account during the audit period. Of this number, 179 deposits were prepared by the Inmate Account custodian, 365 deposits were made electronically through the inmate accounting system, 277 transfers were made from the Sedentary Account, and there were 7 additional adjustments.

The 179 deposits processed into the Inmate Account by the Inmate Account custodian during fiscal year 2018 were examined on a sample basis. Of the 35 sample deposits, all were consistent with the nature of the account and there were no significant exceptions. 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. Additional procedures were performed on 19 of these deposits to agree the increase to the individual inmate's account.

The 365 electronic deposits made through the inmate accounting system were examined on a sample basis. Of the 15 sample electronic deposits, all were traced to the corresponding bank statement and to detailed information of the individual inmates comprising the deposits.

As previously noted, the Sedentary Account maintains the account balances of inmates who have been released but have not received their funds – usually because they have not negotiated the check originally issued to them from the Inmate Account. If an inmate returns to the jail and has a balance in the Sedentary Account, the amount is transferred back to the Inmate Account. For a sample of 20 of these transfers, the amounts transferred to the Inmate Account

from the Sedentary Account were agreed to the bank statements. Further, 7 of these transfers were agreed into the individual inmate's accounts.

Account Disbursements

There were 5,477 checks written on the Inmate Account during the audit period including 1,784 voided checks. Audit procedures found no significant exceptions related to the voided checks. The remaining 3,693 checks were examined on a sample basis. No significant exceptions were found in the 67 sample checks selected.

There were 165 transfers from the Account during the audit period, 78 of these transfers were from the Inmate Account to the Commissary Account as payment for goods and services purchased by the inmates and 87 transfers to the Sedentary Account were processed for funds on account for individual inmates who were released. No significant exceptions were found in the 50 sample transfers selected.

The Inmate Account custodian prepares a Summary Report from the inmate accounting system to support the disbursement amounts for transferring funds to the Commissary Account. This Summary Report is filed with the check stub. The disbursement checks are for commissary purchases, medical services, haircuts, and phone cards.

Bank Statement Reconciliation

Audit procedures identified no significant exceptions related to the bank statement reconciliations for the Inmate Account bank account. The bank reconciliations are reviewed by a supervisor without deposit or disbursement responsibility.

During the Auditor's review of the bank statement reconciliations, it was noted that numerous fraudulent checks were cleared through the account on several occasions. To mitigate the problems posed by the negotiation of fraudulent checks, the Sheriff's Office previously implemented a positive pay system to thwart the payment of fraudulent checks from the Account. The Sheriff's Office is commended for taking this action.

The final bank reconciliation of fiscal 2017 included 4 minor reconciling items occurring in December 2017 and earlier. All adjustments, outstanding checks, deposits in transit, and other exceptions listed on the bank reconciliations should be investigated, corrected, and documented.

Inmate Account Reconciliation

The sum of the individual inmate accounts is not independently reconciled to the Inmate Account bank account balance on a monthly basis; rather the inmate accounting system calculates a "book balance" that is used in the bank reconciliation process. It is recommended that the listing of individual inmate accounts be reviewed for accuracy on a periodic basis and independently reconciled to the Inmate Account bank balance. This reconciliation should be reviewed by a supervisor and be included with the Inmate Account bank account reconciliation.

The sum of individual inmate accounts as calculated by the inmate accounting system at November 30, 2018 was \$181,670; the reconciled bank account balance of the Inmate Account, and the County's general ledger balance as of November 30, 2018 was \$152,071. The two amounts have not been reconciled in several years, since before the implementation of the Keefe

system in 2011. There are several reasons that the cause of the unreconciled balance is unknown. It is recommended that procedures be implemented to reconcile the amounts on a monthly basis to determine the unknown difference. If the unknown difference remains stable, that amount should be adjusted to the Commissary account, after consultation with the State's Attorney. Thereafter, the total of the inmate accounts should be reconciled to the bank balance on a monthly basis.

Significant Cash Deposit

A single deposit of more than \$18,000 in cash was received from an inmate at booking. The inmate's bail was ultimately less than \$10,000, and approximately \$9,700 was returned to the inmate through an Inmate Account check. The Internal Revenue Services requires that IRS Form 8300 be used to report significant cash transactions. While there are specific requirements in the Form 8300 instructions concerning payments of bail, it is not clear if the Inmate Account transactions fulfill the description of a trade or business, and therefore if reporting of these transactions is required. However, the instructions state that the Form may be filed for any suspicious transaction. It is recommended that the Sheriff consult the State's Attorney to determine if the receipt of significant cash requires reporting. Regardless of the requirement to report, as law enforcement, the Sheriff may report these transactions to assist in federal financial control.

Illinois Revised Uniform Unclaimed Property Act

The Illinois legislature recently issued the Revised Uniform Unclaimed Property act, effective 1/1/18 (765 ILCS 1026). The RUUPA prescribes that the period of abandonment to be used with respect to property held by a governmental entity is 3 years after the property becomes distributable. It is recommended that the Sheriff consult with the State's Attorney to determine whether this is applicable to inmate funds and not in conflict with language pertaining to inmate funds noted in the County Jail act (730 ILCS 125/20 (b)).

Unclaimed Property

The Account Custodian discovered some accounts that have been inactive for more than seven years in the Inmate Account. It appears these have not been escheated because they pre-date the use of the Keefe system, and have an inaccurate last activity date. It is recommended that she continue to investigate these and prepare an accounting record of the amounts. As noted above, it is recommended that the Sheriff obtain direction from the State's Attorney's Office to determine the appropriate method of handling these funds.

Quarterly Reports

The Account Custodian prepares quarterly reports to Sheriff's Office supervisory staff summarizing the activity within the Commissary Account and the Inmate Account. The Auditor's review of the reports identified some inconsistencies. It is recommended that the quarterly report is reviewed by a second individual for accuracy prior to issuance.

Summary of Recommendations

- The assignment of duties related to the administration of the Inmate Account should be formalized in order to provide adequate segregation of duties.

- The Sheriff's Office should revise and update the procedures manual regarding the administration of the Inmate Account.
- Reconciling items on the bank reconciliation should be investigated and resolved on a timely manner.
- The individual inmate account balances should be reviewed for accuracy and independently reconciled on a regular basis to the Inmate Account bank balance.
- The Sheriff's Office should determine the requirement or benefit of reporting significant cash transactions.
- The Sheriff's Office should consult with the State's Attorney to determine if the 3 year abandonment period in the Illinois Unclaimed Property Act applies to inmate accounts.
- It is suggested that the Quarterly Reports that summarize activity within the Account be reviewed prior to submitting them to supervisory personnel.

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



Bob Grogan, CPA, CFE
County Auditor

#19-14

cc: County Board
Robert Berlin, State's Attorney
Tom Cuculich, County Administrator
Paul Rafac, Chief Financial Officer