

**COUNTY OF SACRAMENTO
CALIFORNIA**

For the Agenda of:
July 26, 2016
“*Communications Received and Filed*” Item

To: Board of Supervisors
From: Department of Finance
Subject: Sacramento County Sheriff’s Department, Correctional Services, Work Release
Division Cash Review - February And March 2016
Supervisory District: All
Contact: Ben Lamera, Interim Director of Finance, 874-7450

RECOMMENDATION

Receive and file the attached report, *Sacramento County Sheriff’s Department, Correctional Services, Work Release Division Cash Review - February And March 2016*.

Respectively submitted,

Ben Lamera
Interim Director of Finance

Attachment 1, Sacramento County Sheriff’s Department, Correctional Services, Work Release
Division Cash Review - February And March 2016

**COUNTY OF SACRAMENTO
INTERNAL SERVICES
DEPARTMENT OF FINANCE
AUDITOR-CONTROLLER**

Intra-Departmental Correspondence

June 8, 2016

To: Ben Lamera
Interim Director of Finance

From: Hong Lun (Andy) Yu, C.P.A. 
Audit Manager

Subject: **SACRAMENTO COUNTY SHERIFF'S DEPARTMENT CORRECTIONAL SERVICES, WORK RELEASE DIVISION CASH HANDLING REVIEW – FOR THE MONTHS OF FEBRUARY AND MARCH 2016**

We have performed the procedures enumerated below, which were agreed to by you, for the Sacramento County Sheriff's Department's Correctional Services, Work Release Division (Work Release).

These procedures were performed solely to evaluate Work Release's cash handling control procedures for the months of February and March 2016. Sheriff's management is responsible for maintaining sufficient cash handling controls for its division. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. This report is applicable solely to procedures referred to below and is not intended to pertain to any of Sheriff's other operations, procedures, or compliance with laws and regulations. The procedures we performed for Work Release is summarized as follows:

- We reviewed Work Release's cash handling procedures.

Finding: We noted concerns related to the Work Release's cash handling procedures. See Attachment III, *Current Findings and Recommendations*.

- We reconciled daily deposits to the amounts reported on the Sacramento County Financial System (a.k.a. COMPASS).

Finding: The daily deposits were reconciled and agreed to COMPASS. See Attachment I, *Summary of Deposits and Imprest Cash Counted*

- We reconciled imprest cash to the amount authorized in COMPASS.

Finding: Imprest cash was reconciled and agreed to the amount authorized in COMPASS.
See Attachment I, *Summary of Deposits and Imprest Cash Counted*.

- We determined the current status of findings and recommendations reported on Work Release's prior cash handling review report for the months of May and June 2014, dated December 1, 2014.

Finding: The current status of prior findings and recommendations for Work Release is at Attachment II, *Current Status of Prior Findings and Recommendations*.

We were not engaged to, and did not perform an audit or examination, the objectives of which would be the expression of opinions on Sheriff's cash balances, financial schedules, compliance, or results of our procedures referred above. Accordingly, we do not express such opinions. This report relates only to the review of Work Release's cash handling procedures, and does not extend to Sheriff's operations as a whole. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Sheriff's responses to the findings identified during our engagement are described in Attachment III, *Current Findings and Recommendations*. We did not perform procedures to validate Sheriff's responses to the findings and, accordingly, we do not express an opinion on the responses to the findings.

This report is intended solely for the information and use of the Sacramento County Board of Supervisors, Sacramento County Executive, Sacramento County Treasurer, and Sheriff's management. It is not intended to be and should not be used by anyone other than these specified parties. However, this restriction is not intended to limit distribution of this report, which is a matter of public record.

Attachments

Attachment I: *Summary of Deposits and Imprest Cash Counted*

Attachment II: *Current Status of Prior Findings and Recommendations*

Attachment III: *Current Findings and Recommendations*

cc: Members, Board of Supervisors
Scott Jones, Sheriff
Assistant County Executive
David Villanueva, Chief Deputy County Executive
Britt Ferguson, Chief Financial Officer, County Executive Office
Peggy Marti, Assistant Treasurer, Department of Finance
Anita Peden, Chief of Administrative Services, Sheriff's Department
LeeAnnedra Marchese, Captain/Commander, Work Release, Sheriff's Department

SACRAMENTO COUNTY SHERIFF'S DEPARTMENT
CORRECTIONAL SERVICES
WORK RELEASE DIVISION
CASH HANDLING REVIEW
SUMMARY OF DEPOSITS AND IMPREST CASH COUNTED
FOR THE MONTHS OF FEBRUARY AND MARCH 2016

DEPOSITS

Deposit Permit Number	Deposit Date	Sheriff's Deposit Record	Amount Posted by Treasury	Variance
1300588745	02/12/2016	\$ 4,582.00	4,582.00	-0-
1300588964	02/16/2016	10,602.00	10,602.00	-0-
1300588883	02/18/2016	10,601.70	10,601.70	-0-
1300590712	03/08/2016	11,858.20	11,858.20	-0-
1300591092	03/11/2016	6,455.00	6,455.00	-0-
1300591500	03/17/2016	56,054.95	56,054.95	-0-

IMPREST CASH

Imprest Cash	Date Counted	Amount Counted	Authorized Amount	Variance
Change Fund	03/04/2016	\$ 700.00	700.00	-0-
Total		<u>\$ 700.00</u>	<u>700.00</u>	<u>-0-</u>

(1) Amounts consist of review of daily receipts of checks, credit cards, and summary reports.

(2) Daily receipts were agreed to amounts reported on the Sacramento County Financial System (a.k.a. COMPASS).

SACRAMENTO COUNTY SHERIFF'S DEPARTMENT
CORRECTIONAL SERVICES
WORK RELEASE DIVISION
CASH HANDLING REVIEW
CURRENT STATUS OF PRIOR FINDINGS AND RECOMMENDATIONS
FOR THE MONTHS OF FEBRUARY AND MARCH 2016

**FROM THE PRIOR CASH HANDLING REVIEW REPORT FOR THE MONTHS OF
MAY AND JUNE 2014, DATED DECEMBER 1, 2014**

1. External Bank Account

Prior Comment

Sacramento County Sheriff's Department's (Sheriff) Correctional Services, Work Release Division (Work Release) has an external bank account other than County Treasury that was not approved by the Director of Finance. Work Release uses this bank account to receive debit/credit card payments and issue checks to appropriate parties for overpayment to its Home Detention or Work Project program. We noted five signors from Work Release for this bank account and a bank balance of \$277,130 as of May 31, 2014. We were informed May's bank balance consisted of February, March, April, and May's revenues that were not deposited to Sacramento County Treasury. Therefore, the bank balance of \$277,130 in Work Release's external bank account is potentially losing the opportunity to gain interest revenue from the County Treasury cash pool investment.

Prior Recommendation

We recommend Work Release obtain authorization for its external bank account from the Director of Finance. We also recommend Work Release transfer funds from its external bank account to County Treasury at least weekly. We further recommend its external bank account be recorded and maintained in Sacramento County Financial System (a.k.a. COMPASS).

Prior Management's Response

It was stated that the external account was not approved by the Director of Finance. In a correspondence dated March 9, 1998 from the Sheriff's Department to the Department of Finance, the Department of Finance was undoubtedly made aware that we had three bank accounts that would be moved from Bank of America to River City Bank, one of those being the Work Release Division's account that was recently reviewed. Although we do not have a response from the Department of Finance on record, it is clear that we acted prudently and provided complete transparency of our intentions. Furthermore, the update provided infers that there was prior knowledge and permission to have these external bank accounts. In a letter dated November 20, 2014 we sent a request to the Director of Finance, for an acknowledgement of this account for our records.

It was also stated that the bank balance of \$277,130 as of May 31, 2014 caused a potential loss of interest revenue from the County Treasury cash pool investment. This high balance was caused by outstanding deposits to the County Treasury from February, March, April, and May, which the auditor pointed out, yet still came to the conclusion that this was an average

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MAY AND JUNE 2014, DATED DECEMBER 1, 2014 (CONTINUED)**

balance kept in this account. On the same bank statement reviewed, an average daily balance of \$142,158.71 was provided, demonstrating that such a high balance in this account is not typical. The Work Release Division makes every effort to both reconcile to bank statements and prepare deposits on a monthly basis; the month reviewed happened to be an anomaly. Doing deposits any more frequently would not be sensible and would leave room for error since the bank only provides monthly statements to be reconciled to.

In regards to the lost interest, the account is an analyzed account which gives us an opportunity to off-set service fees with earnings credits and thus services fees are negligible. Earning credits are based both on activity and bank balance so if the balance in the account were to fall too low, service fees would increase and negate any potential interest earned.

The external bank account will be recorded and maintained in COMPASS as recommended.

Current Status

It appears our recommendation has not been implemented. See Finding Number 1 in Attachment III, *Current Findings and Recommendations*.

2. Insufficient Controls for Mail and Lock Box Receipts

Prior Comment

During our review of Work Release, we noted no mail or lock box receipt logs were maintained. In addition, Work Release assigns one Sheriff Records Specialist (SRS) to open payments received through the lock box and mail, and process these payments into Revenue Results (Rev Q), its collection recordkeeping system. Since the SRS retrieves payments from the lock box, open and process payments, and no mail or lock box receipt log is prepared and maintained, funds could be misappropriated or lost without management's knowledge.

Prior Recommendation

We recommend Work Release have two individuals open the lock box, log the payments immediately, and sign and date the log. Payments received through the mail should also be logged immediately by an individual with no cashiering responsibilities. These logs should be reconciled to Sacramento County Financial System (a.k.a COMPASS) and Rev Q's deposit records, and any deficiencies should be noted and investigated in a timely manner.

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**FROM THE PRIOR CASH HANDLING REVIEW REPORT FOR THE MONTHS OF
MAY AND JUNE 2014, DATED DECEMBER 1, 2014 (CONTINUED)**

Prior Management's Response

We agree with the auditor's comments and will have two individuals open the lock box, log the payments immediately, and sign and date the log. Payments received through the mail will also be logged immediately by an individual with no cashiering responsibilities. These logs will be reconciled to COMPASS and Rev Q's deposit records, and any deficiencies will be noted and investigated in a timely manner.

Current Status

It appears our recommendation has been implemented.

SACRAMENTO COUNTY SHERIFF'S DEPARTMENT
CORRECTIONAL SERVICES
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CURRENT FINDINGS AND RECOMMENDATIONS
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1. External Bank Account

Comment

Sacramento County Sheriff's Department Correctional Services, Work Release Division (Work Release) maintains an external bank account outside of the County of Sacramento (County) Treasury. Work Release uses this bank account to receive debit/credit card payments and issue refund checks to inmates for overpayment to its respective Home Detention, Work Project or Alternate Sentencing Program (a.k.a. Programs) accounts.

During our review of Work Release's external bank account and February 2016 bank reconciliation, we noted the following concerns:

- I. The external bank account was not authorized by the Director of Finance nor recorded in the Sacramento County Financial System (a.k.a. COMPASS).
- II. Work Release made transfers from its external bank account to the County Treasury once per month.
- III. Work Release transferred \$56,054.95 for February 2016's receipts. However, we noted Work Release did not transfer two days of receipts in February 2016 from its external bank account to the County Treasury in the amounts of \$3,240.57 and \$2,923.00. The amounts were left in Work Release's external bank account, and were subsequently transferred to the County Treasury after we notified Work Release of this error.
- IV. Work Release did not maintain a proper book balance for its external bank account, and as such, proper reconciliations between the external bank account and Work Release's book balance were not performed.
- V. Several outstanding stale dated checks (six months or older) were listed in Work Release's bank reconciliation. Checks dated since February 14, 2013 were left as outstanding items and totaled \$2,816.49.
- VI. Work Release did not enter its bank fees as separate expense line items into COMPASS when making their monthly transfer.

According to County policy, all external bank accounts maintained by County departments are to be recorded in COMPASS. Therefore, Work Release was not in compliance.

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Per the Sacramento County Code, transfers of funds to County Treasury should be made within seven days upon receipt. As such, Work Release's once a month transfer from its external bank account to the County Treasury was not in accordance with the Sacramento County Code.

A correct book balance should be obtained in order to perform proper external bank account reconciliations. By not maintaining a proper book balance and properly reconciling its bank statements to the book balance, Work Release is unable to detect or resolve differences, and is unable to properly track its available balance.

Stale dated checks that are six months or older should be transferred to the County Treasury if the payee cannot be contacted or located. By retaining stale dated checks in its external bank account, the outstanding funds could be subject to theft or misappropriation.

All revenues and expenses should be accurately reflected in COMPASS. By entering its net income into COMPASS, Work Release is understating its revenues and expenses, resulting in inaccurate financial reporting.

Recommendation

We recommend Work Release obtain authorization for its external bank account from the Director of Finance and record its external bank account in COMPASS. We also recommend Work Release ensure timely transfers are made from its external bank account to the County Treasury within seven days per Sacramento County Code, and ensure that all of its receipts are properly transferred. We further recommend Work Release track the book balance of its external bank account, and reconcile its bank statements to the book balance. We also recommend Work Release transfer stale dated checks six months or older to the County Treasury. We also recommend Work Release ensure its revenues and expenses are properly recorded in COMPASS.

Sheriff's Management's Response

1. A copy of the authorization could not be found. Work Release will ask for an authorization from the Director of Finance.
2. COMPASS can track deposits from the River City Bank account. This will be made part of the monthly reconciliation.
3. Starting in FY16-17, Work Release will start doing weekly deposits. It will not be a full reconciliation, as bank statements are not available. Work Release has obtained online

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“read only” privileges of the bank account. The deposit will be the amount from daily activity sheets less any checks written in the same period. These weekly deposits will be tracked in the monthly reconciliations.

4. The reconciliation spreadsheet has been changed to track “Book Value” on a day-to-day basis. This will be updated with the monthly reconciliation.
5. Stale dated checks are not being included in the reconciliations anymore. This will be updated with the monthly reconciliations.
6. A new procedure to record revenue deposits and bank fee expenses in COMPASS will be instituted starting June FY15-16.

2. Check Signatures (External Bank Account)

Comment

As described in Finding Number 1, Work Release maintains an external bank account. We noted only one signor is required to issue checks from its external bank account. In addition, we noted Work Release’s June 2015 transfer check in the amount of \$64,578.61 written from its external bank account and deposited to the County Treasury was not signed. As such, there is the potential that Work Release’s funds could be subject to theft or misappropriation.

Recommendation

We recommend Work Release require two signors to issue checks to better safeguard assets and prevent any theft or misappropriation of funds.

Sheriff’s Management’s Response

Work Release has contacted River City Bank and asked for a requirement of two signatures for checks.

3. Check Endorsement

Comment

Work Release accepts cash, money orders, cashier’s checks, and debit/credit cards from inmates as forms of payment to its Programs. During our review, we noted Work Release did not restrictively endorse its money orders and cashier’s checks (checks) immediately upon receipt. If checks are not restrictively endorsed immediately upon receipt, someone other

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than Work Release is able to cash the checks, and theft or misappropriation of funds could occur and not be detected in a timely manner.

Recommendation

We recommend Work Release restrictively endorse its checks immediately upon receipt.

Sheriff's Management's Response

Work Release has instituted a policy to stamp an endorsement on its checks immediately.

4. Transaction Logs

Comment

Work Release maintains transaction logs to document all incoming payments received from inmates participating in its Programs. During our review, we noted two money orders that were received on March 4, 2016 were not documented on Work Release's March 4, 2016 transaction logs. We also noted some entries on Work Release's transaction logs were corrected with whiteout.

All payments received by Work Release should be immediately logged on the day they are received. Since the correction made by whiteout was not clearly documented, it is difficult to determine whether the correction is appropriate and approved.

By not immediately logging payments the day they are received, making corrections with whiteout without an explanation or initial, payments cannot be easily tracked, and theft or misappropriation of funds could occur and not be detected in a timely manner.

Recommendation

We recommend Work Release ensure all of its payments are documented on its transaction logs on the day they are received. If a correction needs to be made, the entry should be lined out, an explanation for the change should be documented and initialed by the individual making the correction, and reviewed and approved by a supervisor.

Sheriff's Management's Response

Changes have been made to the way the transaction log can be corrected to reflect the recommendations above.