

COUNTY OF SACRAMENTO

DEPARTMENT OF FINANCE - AUDITOR-CONTROLLER DIVISION – INTERNAL AUDIT UNIT

INTERNAL AUDIT REPORT JAIL INDUSTRIES TRUST FUND PERFORMANCE AUDIT

SHERIFF'S DEPARTMENT



Audit Committee Submittal Date: December 20, 2019

SUMMARY

Background

The Sacramento County Sheriff's Department (Sheriff)'s Jail Industries Program (Program) is operated at the Rio Cosumnes Correctional Center and is designed to provide skill training to the inmates, while at the same time producing goods for government agencies and non-profit organizations. The program is self sufficient, and inmates who successfully complete the training are awarded a certificate of completion that outlines the level of competency they have achieved.

County Jail Industries Trust Fund was established in the County Treasury to account for all revenues and expenditures associated with the operation of the Program. County Code Section 2.150.060 requires the County Auditor-Controller to audit such fund on an annual basis.

Audit Objective

To assess whether the Program Trust Fund's financial transactions recorded in the Sacramento County Accounting System (a.k.a COMPASS) were for the operation of the Program and the Sheriff's internal control over properly recording the Trust Fund's financial activities in the Program's accounting system were adequate.

Summary

Based on our audit, we determined that the Program Trust Fund's financial transactions recorded in COMPASS were for the operation of the Program and the Sheriff's internal controls over recording the Trust Fund's financial activities in the Program's accounting system were adequate except for improper financial reporting and insufficient documentation of purchasing approval.

Department of Finance

Ben Lamera
Director



Auditor-Controller Division

Joyce Renison
Assistant Auditor-Controller

County of Sacramento

September 26, 2019

Scott Jones, Sheriff
Sheriff's Department
711 G Street
Sacramento, California 95814

Dear Sheriff Jones:

We have audited Sheriff's Department (Sheriff's Jail Industries Trust Fund (Trust Fund), as required by County Code Section 2.150.060 for the period from July 1, 2017, through June 30, 2018.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Our audit was conducted to assess whether the Jail Industries Program (Program)'s financial transactions recorded in the Sacramento County Accounting System (a.k.a COMPASS) were for the operation of the Program and the Sheriff's internal control over properly recording financial activities in the Program's accounting system.

Management is responsible for the design, implementation, and maintenance of effective internal controls to ensure compliance with all applicable laws, regulations, and statutory requirements.

The scope of our audit will include the Program's internal control activities, policies, and procedures, and financial transactions from July 1, 2017, through June 30, 2018.

We performed our procedures at the Sheriff's Rio Cosumnes Correctional Center on June 13, 2019. The audit methodology utilized to conduct this performance audit included:

1. Internal Control – We reviewed and evaluated the Sheriff's written internal control policies and procedures for invoicing, deposits, purchasing, payment processing, general ledger, cost allocation, capital assets, financial reporting, and cash handling. We compared the policies and procedures to the results of our Procedure Numbers 3, 4, 5, 6, and 7.
2. Cost Allocation – We obtained the Program's written cost allocation policy, procedures, and methodologies including the cost allocation worksheets and supporting data. We compared the policy, procedures, and methodologies to the results of our Procedure Numbers 3 and 4.

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3. Revenues – We obtained the detailed revenue ledger for the Program. We tested \$111,815 revenue transactions of which 77% of unadjusted total revenue (\$145,071) for compliance. See Schedule I, *Summary of Revenues, Expenses and Capital Assets*. We traced them to the supporting documentation such as invoices, receipts, journal entries, and cost allocation calculation. We did not note any incidents of non-compliance from our testing performed.
4. Expenditures – We obtained the detailed expenditure ledger for the Program. We tested \$60,374 expenditure transactions of which 41% of unadjusted total expenditure (\$148,033) for compliance. See Schedule I, *Summary of Revenues, Expenses, and Capital Assets*. We traced them to the supporting documentation such as invoices, receipts, journal entries, and cost allocation calculation. We did not note any incidents of non-compliance from our testing performed. However, we noted some concerns regarding internal control over purchasing process. See Attachment I, *Current Findings and Recommendations*.
5. Capital Assets – We obtained a capital asset listing for the Program, traced the acquisition amounts of the capital assets to the COMPASS and recalculated their accumulated depreciations. We noted that there has been no addition or deletion to the Program's capital assets during the period under audit and confirmed that all existing assets are currently in use. From our procedures performed, we did not note any non-compliance with Program and County policies and procedures. See Schedule I, *Summary of Revenues, Expenses and Capital Assets* for the Program's capital asset acquisition value, accumulated depreciation, and book value as of June 30, 2018.
6. Accounting and Reporting – We inspected the Program's accounting and reporting activities in COMPASS to verify the Program has a separate account in its accounting system to account for all financial activities of the Program exclusively and to identify any non-compliance with Program and County policies and procedures. Based on our procedures performed, we noted a non-compliance regarding revenue and expenditure reporting. The reported Jail Industries Trust Fund account improperly included Non-Jail Industries Trust Fund revenues expenditures both \$986 in the fiscal year 2017-18, respectively. See Schedule I, *Summary of Revenues, Expenses, and Capital Assets* and Attachment I, *Current Findings and Recommendations*.
7. Imprest Cash – We reviewed the Program's general ledger and inquired the Sheriff's management regarding the Program's imprest cash. Based on our procedures performed, we noted that the Program did not have any imprest cash.

In connection with this audit, there are certain disclosures that are necessary pursuant to *Generally Accepted Government Auditing Standards*.

As required by various statutes within the California Government Code, County Auditor-Controllers or Directors of Finance are mandated to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, necessarily impair *Generally Accepted Government Auditing Standards'* independence standards. Specifically, "auditors should

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not audit their own work or provide non-audit services in situations where the amounts or services involved are significant/material to the subject matter of the audit.”

Although the Director of Finance is statutorily obligated to maintain the accounts of departments, districts or funds that are held in the County Treasury, we believe that the following safeguard and division of responsibility exist. The staff that has the responsibility to perform audits within the Auditor-Controller Division has no other responsibility of the accounts and records being audited including the approval or posting of financial transactions that would therefore enable the reader of this report to rely on the information contained herein.

Based on our audit, we determined that the Jail Industries Program (Program)'s financial transactions recorded in COMPASS were for the operation of the Program and the Sheriff's internal control over recording financial activities in the Program's accounting system was proper except for improper financial reporting and insufficient documentation of purchasing approval as described in Attachment I, *Current Findings and Recommendations*.

Sheriff's response to the findings identified during our audit are described in Attachment I, *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 Audit Committee, and Sheriff's management, and should not be used for any other purpose. It is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

BEN LAMERA
DIRECTOR OF FINANCE



By: Hong Lun (Andy) Yu, CPA
Audit Manager

Enclosures:

Schedule I, *Summary of Revenues, Expenses, and Capital Assets*
Attachment I, *Current Findings and Recommendations*

County of Sacramento
 Sheriff's Department
 Jail Industries Trust Fund Performance Audit
 Summary of Revenues, Expenses and Capital Assets
 July 1, 2017 through June 30, 2018

	<u>Amount Per General Ledger</u>	<u>Adjustment</u>	<u>Amount Adjusted</u>
Revenues			
Program Revenue	\$ 142,872 ^(I)	44,909	187,781
Interest Income	2,199		2,199
Total Revenues	<u>145,071</u>	<u>44,909</u>	<u>189,980</u>
Expenses			
Countywide Cost Allocation	1,215		1,215
Equipment Maintenance Supplies	146,818 ^(II)	(986)	145,832
Total Expenses	<u>148,033</u>	<u>(986)</u>	<u>147,047</u>
Operating Income (Loss)	<u>\$ (2,962)</u>	<u>45,895</u>	<u>42,933</u>
	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Capital Assets as of June 30, 2018	<u>\$ 92,723</u>	<u>71,747</u>	<u>20,976</u>

^(I) Amount consists of Non-Jail Industries Trust Fund revenues in the amount of (\$986), year end transfer to Jail Industry Trust Fund for revenues exceeding expenses in the amount of \$42,734, and FY 2017-18 revenues posted in FY 2018-19 in the Prior Year revenue account in the amount of \$3,161.

^(II) Amount consists of Non-Jail Industries Trust Fund Expenses in the amount of (\$986).

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Jail Industry Trust Fund Program Performance Audit
Current Findings and Recommendations
July 1, 2017 through June 30, 2018

1. Inappropriate Financial Reporting

Comment

During our review of Sheriff's Department (Sheriff)'s general ledger and trial balance, we noted revenues and expenditures unrelated to Jail Industry Program (Program), Wild Horse Program (WHP), were commingled with Jail Industries Program fund account. The amount of WHP funds comingled with Jail Industries fund account was \$986 for both the Program's revenues and expenditures, respectively, in the fiscal year 2017-18.

Although the fund balance is not affected by this commingling, both revenues and expenditures of Jail industries Trust Fund (Trust Fund) were overstated by \$986. It appeared that this was caused by management oversight.

The Sheriff should separately track its revenues and expenditures for the Trust Fund and should not commingle them with other program activities.

Recommendation

We recommend the Sheriff establish a separate fund account to record WHP's revenues and expenditures, and not to commingle them with the Trust Fund's activities.

Sheriff's Management Response

The Wild Horse Program has a similar mission as the Jail Industries Program in that they are both programs to help reduce recidivism by teaching inmates valuable trade skills that can be used after release.

The Jail Industries Program currently has a separate fund account for the Bureau of Land Management Wild Horse Program. The fund account that separately tracks revenue and expenditures for the Wild Horse program is Fund 001A, Fund Center 7407422, Cost Center 7407422201.

What was observed in the Jail Industries 054A fund was a donation made from the National Mustang Association, approved and accepted by the Board of Supervisors on January 28, 2014 with Resolution No. 2014-0067-0070.

Even though the accounts for this donation were set up in the same 054A fund as the Jail Industries Program, all expenditures and revenues were accounted for separately. Expenditures are recorded in Fund 054A, Fund Center 7407425, Cost Center 7407425040. The one time donation of funds were deposited to Fund 054A, General Ledger Account 5500101 while the Jail Industry Trust revenues are deposited into Fund 054A, General Ledger Account 5500000. At no time were these funds comingled beyond the Fund level.

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2. Insufficient Documentation of Purchase Approval

Comment

According to the Sheriff's policies and procedures, purchases under \$5,000 requires approval from the Division Commander, a Sheriff's Captain and purchases over \$5,000 requires approval from the Sheriff's Chief Deputy of Correctional Services Chief prior to the purchases.

Although we did not note any inappropriate purchases during our expenditure testing of the Program, no evidence of prior approvals were documented for 6 of 25 expenditure transactions tested. The Program's Fiscal Manager explained that purchase approvals were requested and granted via email and purchase approving process did not require keeping the approval emails after the purchases. Therefore, not all approval emails were retrievable as an audit trail. Without the audit trail, we could not verify if approvals were in fact obtained prior to the 6 purchase transactions mentioned above.

Not documenting the audit trail for purchase approval can create confusions and opportunities for inappropriate purchases.

Recommendation

We recommend the Sheriff document its purchase approvals consistently for all purchases to prevent any confusion and to eliminate opportunities for inappropriate purchases in the future.

Sheriff's Management Response

The Sheriff's Department does not agree there is a deficiency in documentation of purchase approvals. Current practice is to discard electronic approvals once purchases are made as they are intended to be for internal tracking only and go above and beyond what is required of any purchasing policies.

The Rio Cosumnes Correctional Center (RCCC) purchasing staff will be more diligent in keep the approval emails/signed request to purchases for Jail Industries funded purchases in the future. We have changed our internal practice and will ensure all charges hit the Jail Industries accounts directly, rather than have the charge journal vouchered after being purchased by the RCCC Warehouse.