



Lexington-Fayette Urban County Government  
OFFICE OF INTERNAL AUDIT

## **MANAGEMENT ACTION PLAN PROGRESS REPORT**

DATE: August 1, 2014

TO: Jim Gray, Mayor

CC: Sally Hamilton, Chief Administrative Officer  
Glenn Brown, Deputy Chief Administrative Officer  
Aldona Valicenti, Chief Information Officer  
Clay Mason, Commissioner of Public Safety  
Rodney Ballard, Director of Community Corrections  
Phyllis Cooper, Director of Accounting  
Susan Straub, Communications Director  
Urban County Council Members  
Internal Audit Board Members

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit  
Jim Quinn, CIA, CISA, Internal Auditor

RE: Prisoner Account Fund Management Action Plan Progress

### **EXECUTIVE SUMMARY**

On January 19, 2012, the Office of Internal Audit issued the Community Corrections Prisoner Account Fund Audit report. Included in that report were four findings. This follow-up review was conducted to evaluate controls put in place by management to address those specific findings from the January 2012 report.

This review is provided for management information only. It is not an audit and no opinion is given regarding controls or procedures. We interviewed Division of Community Correction staff, viewed updated policies and procedures, and obtained other audit evidence as necessary to complete our follow-up procedures. The period of transaction sampling was from November 2013 through February 2014.

A summary of the findings from the original audit report and a summary of the results of our follow-up are provided in the table below. The original findings, management's original responses, and details of the results of this follow-up are contained in the **ORIGINAL AUDIT RESULTS AND FOLLOW-UP DETAILS** section of this report.

<b>Finding or Risk Observation</b>	<b>Summary of Original Finding</b>	<b>Follow-Up Results</b>
Finding #1 High Priority	Segregation of Duties Issue.	Significant lack of segregation of duties still exist in regard to the PAF inmate refunds and expenditures processes, except that the staff member responsible for the PAF bank account reconciliation is no longer an authorized check signer on the PAF account.
Finding #2 High Priority	Improved Control of Check Stock Needed.	Check stock is now centralized in one location improving control and reducing risk significantly. However, a check log to monitor check stock has not been developed as previously recommended and agreed to by management. Monthly physical inventories of check stock are not being done.
Finding #3 High Priority	Refund Issued for Improper Amount.	Control procedures were implemented to reduce the risk of future refund errors. Some new procedures were not included in the Financial Unit written procedures manual.
Finding #4 High Priority	Expenditure not supported.	All expenditures tested were properly supported, including expenditures similar to the type found unsupported in our previous audit.

## ORIGINAL AUDIT RESULTS AND FOLLOW-UP DETAILS

### **Original Finding #1: Segregation of Duties Issue**

**Priority Rating: High**

#### **Condition:**

Two Inmate Account employees have the responsibility to approve inmate refunds from the PAF. Another Inmate Account employee is responsible for approving PAF expenditures, and a fourth Inmate Account employee is responsible for reconciling the PAF checking account. In addition to these duties, all four of these employees also have authority to print and sign PAF checks, resulting in significant segregation of duty issues.

#### **Effect:**

The absence of properly segregated duties reduces management's ability to prevent, detect, and/or correct errors and irregularities, thereby significantly increasing financial risk.

#### **Recommendation:**

The responsibilities for approving PAF disbursements, reconciling PAF account activity, and printing and signing PAF checks should be separated to enhance control over PAF account activity.

#### **Interim Director of Community Corrections Response:**

Management concurs with the audit findings. The staff member responsible for reconciling the bank account is no longer an authorized signer on the PAF account. With limited number of available staff all efforts are made to segregate the duties as much as possible.

#### **Commissioner of Public Safety Response:**

I concur with the Interim Director's response.

#### **Follow-Up Detail Results:**

**The significant segregation of duties issues identified above in regards to the PAF refund and expenditure process still exist except that the staff member responsible for reconciling the PAF bank account is no longer an authorized signer on the PAF account. The two Inmate Account staff primarily responsible for inmate refunds still have the incompatible duties of entering inmate refund transactions into the Canteen accounting system, authorizing and approving inmate refund payments, and printing, signing, and distributing inmate refund checks. Other**

administrative and management employees have the incompatible PAF Account duties of approving transactions and signing checks. The employee responsible for reconciling the PAF bank account is no longer an authorized check signer; however, this employee still has the incompatible authority to approve Accounts Payable invoices related to prisoner benefit expenditures.

We recommend the PAF refund and expenditure duties be reassessed by management to separate the duties of posting transactions, approving transactions, approving the disbursement of related funds, and reconciling the bank account.

**Director of Community Corrections Response:**

Management concurs. After discussing the issues with Internal Audit the supervisor of the inmate finance unit (Inmate Accounts), or their designee, will approve all disbursements over \$100. The Director will approve all Prisoner Benefit expenditures over \$100.

**Commissioner of Public Safety Response:**

I concur with the Director's response.

**Original Finding #2: Improved Control of Check Stock Needed**

**Priority Rating: High**

**Condition:**

Four Inmate Account employees maintain small supplies of PAF check stock in their work areas. Each one is authorized to print PAF checks on their printers. The remaining check stock is secured in a locked cabinet. There is no check log to account for check stock or to track the issuance of these checks.

**Effect:**

The absence of a check log increases the risk of checks being lost, stolen, or otherwise misused.

**Recommendation:**

Community Corrections should develop a check log designed to account for check stock and the distribution of checks to the various Inmate Account employees. Check stock should be inventoried monthly by an employee with no check printing or check signing authority. The monthly physical inventory should be reconciled to the check log and any discrepancies should be promptly investigated.

**Interim Director of Community Corrections Response:**

Management concurs with the audit findings. The staff member who handles the return of funds to the inmates keeps a stock of checks in a locked cabinet behind a locked door. The staff member responsible for accounts payable issues related to the operation of the Prisoner Benefit and the escheats also maintains a small stock of checks secured in a locked drawer. The Division will develop a check log to properly track which employee has possession of numbered check stock currently in circulation. The remaining check stock will continue to be maintained in a locked cabinet.

**Commissioner of Public Safety Response:**

I concur with the Interim Director's response.

**Follow-Up Detail Results:**

Unused check stock is no longer distributed among various inmate account staff but is centralized in one location and maintained by one employee, thereby reducing the risk for checks being lost or misused. These checks are also being kept in a locked cabinet behind a locked door. However, a check log to track and monitor check stock has not been developed as management stated would be done in response to this finding in the last audit (see above). Also, monthly physical inventories of check stock are not being performed as recommended in the previous audit report.

We recommend Community Corrections develop a check log designed to account for check stock. Check stock should be inventoried monthly by an employee with no check printing or check signing authority. The monthly physical inventory should be reconciled to the check log and discrepancies should be promptly investigated.

**Director of Community Corrections Response:**

Management concurs. This was a misunderstanding on the Division's behalf regarding the original recommendation. A limited number of checks will be kept on hand for daily use and a check log developed and documented daily. A monthly inventory of all check stock will be conducted the last week of each month.

**Commissioner of Public Safety Response:**

I concur with the Director's response.

**Original Finding #3: Refund Issued for Improper Amount**  
**Priority Rating: Moderate**

**Condition:**

A refund was erroneously issued to an inmate prior to his bond being paid. The inmate was refunded his full balance including the amount of the bond, which should have been collected from the inmate's existing PAF account balance.

**Effect:**

The Prisoner Account Fund suffered a financial loss of approximately \$2,000.

**Recommendation:**

We noted that processes have been put in place to prevent similar errors in the future. Inmate Account personnel should consistently review all PAF accounts prior to issuing checks for the account balance to ensure that all balances due to Community Corrections are collected.

**Interim Director of Community Corrections Response:**

Management concurs with the audit findings. The employee responsible for the error was new to the position and did not recognize the funding issue. Upon recognition of the error the employee notified her supervisor who in turn notified Senior Management. The inmate was contacted; however, he failed to respond to our request for the return of the funds. New procedures were developed and implemented to prevent this error from occurring in the future.

**Commissioner of Public Safety Response:**

I concur with the Interim Director's response.

**Follow-Up Detail Results:**

We confirmed with Inmate Account staff that new control procedures have been implemented to reduce the risk of refunding errors. Staff stated that for every inmate refund over \$100, two inmate account staff members now review the inmate's account balance, verify the inmate's identity in the jail management database, ensure the amount to be refunded is correct, and sign the refund check. These procedures appear sufficient to reduce the risk of refund errors similar to the one noted in our previous audit. A sample of disbursement checks verified that two signatures are being obtained.

We also reviewed the Community Corrections Financial Unit written procedures manual to determine if these new procedures were included in the SOPs. Most of these procedures were included; however, we could not find the procedure

specifying that for refunds over \$100 two inmate account staff members must review the inmates account and ensure the amount to be refunded is correct. We recommend this procedure be added to the Community Corrections Financial Unit written procedures manual in order to properly educate new staff members on inmate refund procedures and to ensure employee accountability should errors occur.

**Director of Community Corrections Response:**

Management concurs. The procedures for the inmate finance unit will be updated.

**Commissioner of Public Safety Response:**

I concur with the Director's response.

**Original Finding #4: Expenditure Not Supported**

**Priority Rating: Moderate**

**Condition:**

During our detail testing we noted that one expenditure did not contain supporting documentation. Community Corrections personnel stated that small purchases for video rentals, pizza, etc. are prearranged and receipts are not submitted to support the expenditure. Per KRS 441.135 Canteen for Prisoners, "The jailer shall keep books of accounts of all receipts and disbursements from the canteen..."

**Effect:**

The validity of expenditures and the accurate accounting thereof cannot be verified without appropriate support.

**Recommendation:**

Support should be maintained for all PAF expenditures.

**Interim Director of Community Corrections Response:**

Management concurs with the audit findings. The expense was an ongoing monthly expenditure and while the receipt was not readily available at the time of the audit a member of the Financial Unit was able to contact the vendor and obtain the supporting documentation. All receipts will be maintained and kept on file to support the expenditures.

**Commissioner of Public Safety Response:**

I concur with the Interim Director's response.

**Follow-Up Detail Results:**

We selected a sample of PAF expenditures for testing from the period November 2013 to February 2014. All expenditures tested, including smaller purchases for items such as pizza, popcorn, and soda (similar to the unsupported expenditure noted in our original finding), were supported with proper receipt documentation.

No management response required.