

Sonoma County

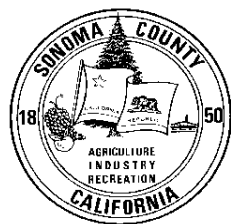
Auditor-Controller-Treasurer-Tax Collector

Internal Audit Report

**Internal Audit:
Sonoma County Sheriff's Office
Inmate Welfare and Jail Store Trust Funds**

For the Period: July 1, 2021 - June 30, 2023

Engagement No: 3485
Report Date: December 19, 2024



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Executive Summary

As a part of the 2023-2024 Annual Audit Plan, the Internal Audit Division (IA) of the Sonoma County Auditor-Controller-Treasurer-Tax Collector's Office (ACTTC) performed an audit of the Inmate Welfare (IWTF) and Jail Store (JSTF) trust funds for the period July 1, 2021 to June 30, 2023. Our audit is designed to identify, analyze, evaluate, and document sufficient information and evidence to achieve our audit objectives. We believe that the evidence obtained provides a reasonable basis for the findings and recommendations contained in our report.

The primary purpose of our engagement is to furnish management with independent and objective analyses, recommendations, and other information concerning the activities reviewed. The audit report is a tool to help management identify and implement improvements and is required by the Sheriff's Inmate Welfare and Jail Stores Trust Funds Policy (hereinafter Policy).

The objectives of this audit were to determine whether:

1. Inmate accounts were maintained in compliance with the Policy and relevant laws, including Government Code Sections 26640 and 26641.
2. The money deposited in the IWTF was expended in accordance with the Policy and relevant laws, including Penal Code Section 4025.
3. Profits from the operations of the Commissary were transferred to the IWTF in accordance with the Policy and Penal Code Section 4025.
4. Revenues and expenditures in the annual financial reports filed with the County Board of Supervisors represent transactions executed in accordance with the Policy and the law.

Inmate accounts were maintained, and trust funds were managed in accordance with the Trust Funds' Policies and Procedures, and relevant Penal code sections. Profit from the Commissary operations was transferred to the IWTF as required by the Policy and Penal Code Section 4025. However internal control weaknesses over accounts payable and financial reporting resulted in financial reporting that does not accurately reflect IWTF and JSTF annual expenses and revenues collected. At least one vendor was overpaid several times by approximately \$3,875, and another vendor was paid approximately \$16,411 for goods received as far back as fiscal year 2020. The prior period expenses were paid to the previous commissary vendor for outstanding balances when the relationship ended, and commissary services were outsourced to a different vendor. Commission revenue reported by the Jail Stores Trust was overstated by \$26,778 in fiscal year 2022. As part of the 2022 year-end closing process, management estimated commission revenue of \$60,000 for the month of June, when actual commission revenue received for June 2022 in fiscal year 2023, was \$ 33,222. Additional details regarding reporting of year end estimates, and internal control weakness are provided in the Findings, Recommendations and Management Responses section of this report on page 4.

We recommended improvements to strengthen internal controls over accounts payable and financial reporting. Management has implemented one prior year recommendation related to policy updates and partially implemented the other prior year recommendation related to reporting program expenses.

We would like to thank the management and the staff of the Sheriff's Office for their time, information, and cooperation throughout the audit.

Background, Scope and Methodology

California Penal Code Section 4025 authorizes the Sheriff to operate a jail store and to deposit any profit in an inmate welfare fund. The Sheriff's Office Detention Division operates a store, known as Commissary, in the County adult detention facility. The Commissary is operated through the Jail Stores Trust Fund. In March of 2022 the Office outsourced the Commissary operations, as well as incarcerated persons banking to Summit Food Services, LLC (Summit). Profits from the Commissary operations, in addition to commissions earned from incarcerated person's phone calls and phone card sales (until October of 2021), as well as interest earned by IWTF, are to be used by the Office primarily for the benefit, education, and welfare of the incarcerated persons per the Penal Code Section 4025.

California Penal Code Section 4025(e) requires an itemized annual report of expenses of the Inmate Welfare Trust Fund be submitted to the Board of Supervisors. Audits of the IWTF and JSTF are required by Sheriff's Office policy to be completed every two years by the County Auditor-Controller Treasurer-Tax Collector (ACTTC).

The scope of our audit covered the period July 1, 2021, through June 30, 2023. To accomplish the audit objectives our methodology included but was not limited to the following:

- A preliminary survey to update our knowledge of the operating environment and identify changes in laws and regulations, systems, personnel, and organization structure.
- A risk analysis to identify significant risks of non-compliance with policies, procedures, or laws; loss or misuse of assets; and inefficiencies in processes.
- A review and evaluation of internal controls designed to ensure compliance with the above requirements and to adequately reduce the risks identified.
- A test of transactions and supporting documentation on a sample basis to assist with the review and evaluation of internal controls.

Our audit included inquiry, observation, and tests to assess the adequacy of documentation supporting compliance with relevant Penal Code and California Government Code Sections and the Policy.

Results

Objective #1:

Inmate accounts were maintained in compliance with Policy and relevant laws, including Government Code Sections 26640, 26641 and 26642.

We reviewed Exchange Bank reconciliations for all months in the Audit period and verified reconciliations were performed, including reconciliations to the Check Register, Touchpay transactions, the Justice System and Lockdown. We reviewed a sample of Detention Division shift change cash count worksheets and confirmed they were properly completed, and amounts agreed to detention system cash drawer reports. We reviewed a sample of quarterly Jail Safe Cash Count worksheets and confirmed cash is being counted and reconciled to cash balances in the Justice System Cash Summary reports. We performed a walkthrough of the inmate commissary order, fulfillment and receipting process. We compared individual inmate account balances in the old Justice System to balances transferred to the new Lockdown system.

Objective #2:

The money deposited in the IWTF was generally expended in accordance with Policy and relevant laws, including Penal Code Section 4025. There were internal control weaknesses in the accounts payable processes, as a result some vendor invoices in the IWTF and JSTF were overpaid, the majority of the overpayments were applied as credits to future invoices. Additional details are provided in the Findings, Recommendations and Management Responses section on page 4.

We tested a sample of disbursement transactions for authorization, accuracy, support, compliance with applicable laws and regulations and proper recording in the general ledger.

Objective #3:

Profits from the operations of the jail commissary were transferred to the IWTF in accordance with Policy and Penal Code Section 4025.

We reviewed the profit transfers from the operations of the Commissary for the fiscal years ended June 30, 2022, and June 30, 2023, to determine whether they were transferred to the IWTF as required by Policy and Penal Code Section 4025.

Objective #4:

Revenues and expenditures in the annual reports, filed with the County Board of Supervisors, represent transactions executed in accordance with Policy and the law. Some balances in the IWTF and JSTF annual reports, were misstated because commission revenue was overestimated during the year-end closing process, some invoices were overpaid, and some payments included amounts for services and goods incurred/received in prior fiscal years. Additional details are provided in the Findings, Recommendations and Management Responses section on page 4.

We reviewed policies and procedures over the operations of the Commissary and reviewed the IWTF Committee meeting minutes for proper approval of expenditures. We also conducted an evaluation of reasonableness of Commissary profits based on data from the Justice System and Summit Lockdown reporting. Additionally, we identified and reviewed any material variances between the current and prior year account balances in both funds.

Findings, Recommendations and Management Responses

Finding #1: Risk Classification B: Significant Control Weakness

In fiscal year 2022 IWTF Comcast bills were overpaid four separate times, because payments to the vendor were made based on monthly statement balances instead of invoice balances. The overpayments resulted in the IWTF Other Professional Services balance being overstated by \$3,875 in fiscal year 2022. In fiscal year 2023 the IWTF Other Professional Services balance was understated by approximately \$3,875, because Comcast invoice credits were applied for the prior year over payments.

In fiscal year 2022 two JSTF invoices in our sample selection were overpaid. One invoice was overpaid by \$420, because sales tax was incorrectly applied to a payment for commissary food. A different invoice was paid in full, even though \$259 worth of items were marked as not received. Additionally, in fiscal year 2023 JSTF expenses included at least \$16,411 in payments related to invoices for goods received in prior years, the prior period expenses dated back as far as fiscal year 2020.

JSTF total revenue is overstated by \$26,778 in fiscal year 2022 and understated by the same amount in fiscal year 2023. As part of the 2022 year-end closing process, management estimated commission revenue of \$60,000 for the month of June, actual commission revenue received for June 2022 in fiscal year 2023, was \$ 33,222. In fiscal year 2023 a prior period revenue adjustment of \$26,778 was recorded, as a result total revenue was understated.

Recommendation #1: Internal controls over accounts payable and financial reporting

- 1a.** Management should evaluate whether employees involved in processing, reviewing and approving invoices need additional training to ensure, invoices are paid timely, coded to the proper period and matched to approved packing slips/invoices prior to payment. Employees outside of the purchasing unit should be cross trained in payment processing, so that payments are processed timely and accurately during purchasing unit staffing shortages.
- 1b.** Annual reports of revenues and expenses submitted to the Board of Supervisors should include notes that clearly identify balances which include estimates, prepaid expenses, payments related to prior periods and any other similar information.

Management Response:

- 1a.** Management concurs. During the audit period, the unit responsible for processing invoices, Sheriff's Purchasing, faced insufficient staffing levels. This shortage was further exacerbated by mandatory extended quarantines for employees who tested positive for COVID and those exposed to it. Since then, additional resources and an extra help employee have been allocated to Sheriff's Purchasing, resulting in a significant reduction in invoice processing issues. Management also acknowledges that having cross-trained staff available as backup is a best practice. However, the two other employees in this job class are often at full capacity, making cross-training challenging. Management plans to implement cross-training as workload capacity permits.

To address invoice errors, a secondary review shall be conducted by the department analyst responsible for managing the Trust budgets. This review facilitates timely corrections before the close of the fiscal year. During the audit period, staffing challenges and vacancies in the department analyst position impacted this process. With current staffing levels now adequate and

Findings, Recommendations and Management Responses

the analyst vacancy filled, Management will assess procedures and identify any additional training requirements.

- 1b.** Management concurs. This practice will be fully implemented by the FY 24-25 financial reporting period.

Status of Prior Year Recommendations

Prior Year Recommendation #1: Risk Classification B: Significant Control Weakness

The Inmate Welfare and Jail Stores Trust Funds Policy should be updated to reflect changes in commissary system operations (section 4.4 - Fund Property), commissary pricing (section 4.12 - Commissary Pricing) and the jail stores physical inventory processes (section 4.14 - Inventory Control).

Status: Implemented

The Sheriff's Office has revised the Inmate Welfare and Jail Stores Trust Funds Policy to reflect the current outsourced Commissary operations.

Prior Year Recommendation #2: Risk Classification B: Significant Control Weakness

The Sheriff's Office should develop instructions for reporting inmate educational program expenses and establish a consistent way of reporting expenses. The Sheriff's Office should consider reporting inmate educational expenditures by major type of educational program using different line items with totals, which could be accomplished using cost accounting codes. Reporting by educational program type, would make the reporting consistent with the way other expenses are reported in the annual summary report, it would also be the most transparent and provide the most useful information for decision makers.

Status: Partially Implemented

The Sheriff's Office is now reporting incarcerated persons educational expenditures in the Fund reports with notations next to the vendors in the line item describing the type of educational program being offered. However, they have not implemented using cost accounting codes for the different educational program types. Including the educational program type has made the reporting consistent.

Prior Year Recommendation # 3: Risk Classification B: Significant Control Weakness

The IWTF committee should meet and perform its duties as required by the Policy.

Status: Partially Implemented

Audit found that the committee met regularly to approve the annual budget, and the quarterly revenue and expenditures as required by the law and the Policy. However, we note that the meeting minutes do not reflect the Committee's review of the annual fund reports, and in fiscal year 2022 there was no documentation of a review of the IWT Inventory Control Log or presentation of the review to the IWT Committee. The active participation of the committee is necessary to demonstrate that the Office is properly discharging its fiduciary responsibility towards incarcerated persons.

Inmate Welfare Trust Fund Report

Sonoma County Sheriff's Office
Inmate Welfare Trust Fund Report
For the Fiscal Years Ended June 30, 2022 & 2023

	<u>2022</u>	<u>2023</u>
Beginning Fund Balance	\$ 1,663,332	\$ 1,406,395
<u>Revenues</u>		
Interest on Pooled Cash	\$ 10,866	\$ 27,817
Unrealized Gain / (loss)	(53,097)	5,901
Telephone Revenues	61,691	18,000
Civil Process Services (jail sign board advertising)	43,575	43,050
Charges for Services (kiosk commission)	1,325	338
Prior Year Revenue Miscellaneous	(3,518)	1,044
Refund (From General Fund per prior years audit)	471	-
Transfer In from Jail Stores Trust	<u>230,000</u>	<u>261,300</u>
Total Revenues	<u>\$ 291,313</u>	<u>\$ 357,450</u>

Inmate Welfare Trust Fund Report

Sonoma County Sheriff's Office
Inmate Welfare Trust Fund Report
For the Fiscal Years Ended June 30, 2022 & 2023
Continued

<u>Expenditures</u>	<u>2022</u>	<u>2023</u>
County Service Charges		
Programs Correctional Deputy	\$ 203,278	\$ 151,059
Programs Administrative Aide	101,298	86,180
Total Salary and Benefit Reimbursements	\$ 304,576	\$ 237,239
Inmate Educational Programs		
CA Parenting Institute (anger mgmt, parenting)	\$ 12,544	\$ -
Friends Outside (inmate and family support)	23,712	26,247
Goodwill (job skills training)	9,360	-
Sonoma County Library (literacy, library services)	14,453	31,066
Legal Research Associates (law library services)	24,335	22,894
Religious supplies	136	-
Acivities (holiday cards, art, basketballs)	654	405
Books (change, religious, book club, library, legal)	5,720	3,103
Other (\$5,600 for special chairs for MH Unit, dice, TV, handballs)	5,745	4,236
Total Inmate Educational Programs	\$ 96,659	\$ 87,951
Services and Supplies		
Maintenance - Equipment	\$ 493	\$ 566
Accounting/Auditing Services (Auditor biannual audit)	15,250	-
Client Accounting Svcs. (Auditor phone commission recon)	1,328	-
Other Professional Services (Cable MADF)	Note 2 13,178	5,481
Rents and Leases - Equip. (Copier for Programs)	3,221	5,519
Training/Conference Expenses (CA Jail Programs)	1,269	867
Memberships/Certifications	175	275
Other Supplies (Inmate incentives)	11,793	18,027
Office Supplies (for Programs office)	104	355
Books/Media/Subscriptions (Press Democrat)	13,816	15,062
Minor Equipment/Small Tools (distance learning equip)	5,595	1,611
Computer Equipment/Accessories distance learning)	1,733	-
Special Department Expense (Horticulture program)	77,000	21,600
Support and Care of Persons (indigent commissary)	2,060	13,809
Total Services and Supplies	\$ 147,015	\$ 83,172
Total Expenditures	\$ 548,250	\$ 408,362
Change in fund balance	Note 2 \$ (256,937)	\$ (50,912)
Beginning fund balance	1,663,332	1,406,395
Ending Fund Balance	Note 2 \$ <u>1,406,395</u>	<u>\$ 1,355,483</u>

See detailed notes to these schedules on page 9 of this report.

Jail Store Trust Fund Report

Sonoma County Sheriff's Office
Jail Store Trust Fund Report
For the Fiscal Years Ended June 30, 2022 & 2023

	<u>2022</u>	<u>2023</u>
Beginning Fund Balance	\$ 90,979	\$ 147,217
Revenues		
Unrealized Gain / (Loss)	\$ (13,939)	\$ 1,742
Commissary Commission (partial year 2022)	Note 3 165,052	445,728
Commissary Sales (partial year 2022)	809,552	2,802
Prior Year Revenue - State sales tax	Note 3 (172)	(26,778)
Total Revenues	<u>\$ 960,493</u>	<u>\$ 423,494</u>
Expenditures		
Commissary Merchandise		
Communication	\$ 21,030	\$ -
Food and Beverages	Note 4 284,722	15,924
Clothing/Personal Supplies	Note 4 29,578	974
Office Supplies	2,451	582
Mail and Postage Supplies	8,191	-
Total Merchandise Expenditures	<u>\$ 345,972</u>	<u>\$ 17,480</u>
Operating Expenditures		
Maintenance - Equipment	\$ 5,551	\$ -
Administrative Overhead	54,402	23,684
County Audit Services	15,250	-
Commissary Staff Payroll	239,414	116,909
Rents and Leases - Equipment	2,701	455
ISD Baseline Services	5,754	2,961
Printing and Binding Supplies	5,211	-
Total Operating Expenditures	<u>\$ 328,283</u>	<u>\$ 144,009</u>
Operational Transfers		
Transfer to Inmate Welfare Trust	\$ 230,000	\$ 261,300
Total Expenditures and Operating Transfers	<u>\$ 904,255</u>	<u>\$ 422,789</u>
Change in Fund Balance	Note 3 & 5 \$ 56,238	\$ 705
Beginning Fund Balance	<u>90,979</u>	<u>147,217</u>
Ending Fund Balance	Note 3 \$ <u>147,217</u>	<u>\$ 147,922</u>

See detailed notes to these schedules on page 9 of this report.

Notes to the Trust Fund Reports

Note 1: Inmate Welfare Trust and Jail Store Trust Fund Reports Presentation

These cash basis Trust reports were prepared for the purpose of presenting revenues and expenditures of the Inmate Welfare Trust and Jail Store Trust pursuant to Penal Code Section 4025 (e) and is not intended to be a presentation in conformity with generally accepted accounting principles. The revenue and expenditures are presented on a cash basis. Accordingly, note disclosures required by Governmental Accounting Standards are not presented, since such disclosures are not required by California Penal Code Section 4025.

Note 2: Inmate Welfare Trust Fund Report – Other Professional Services

In fiscal year 2022, Other Professional Services was overstated showing a balance of \$13,178 instead of \$9,303, because Comcast invoices were overpaid by \$3,875, as a result change in fund balance was overstated and ending fund balance was understated by \$3,875. In fiscal year 2023, the Other Professional Services balance was \$5,481 instead of \$9,356, because of approximately \$3,875 in prior year overpayment credits, as a result change in fund balance was understated \$3,875.

Note 3: Jail Store Trust Fund Report – Commissary Commissions

In fiscal year 2022, total revenues were overstated, showing a balance of \$960,493 instead of \$933,715, because June Commissary Commission revenue was overestimated by \$26,778, as a result the change in fund balance and the ending fund balance were overstated by \$26,778. In fiscal year 2023, total revenue was understated showing a balance of \$423,494 instead of \$450,272, because the \$26,778 was included as a negative prior year revenue adjustment.

Note 4: Jail Store Trust Fund Report – Commissary Expenses

In fiscal year 2023, total Merchandise Expenditures were overstated, showing a balance of \$17,480 instead of \$1,069. At least \$16,411 in outstanding invoices were paid in fiscal year 2023 for Food and Clothing/Personal Supplies expenses received in prior periods dating back to fiscal year 2020.

Note 5: Jail Store Trust Fund Report – Change in Fund Balance and Ending Fund Balance

As a result of the errors discussed in Notes 3 and 4, the fiscal year 2023 change in fund balance was reported at \$705 instead of \$43,894. The Sheriff's Office recorded adjustments to correct the errors, as a result the fiscal year 2023 ending fund balance is accurate.

Appendix A-Report Item Risk Classification

For purposes of reporting our audit findings and recommendations, we classify audit report items into four distinct categories to identify the perceived risk exposure:

- **Risk Classification A: Critical Control Weakness:**
Serious audit findings or a combination of Significant Control Weaknesses that represent critical exceptions to the audit objective(s), policies, and/or business goals of a department/agency or the County as a whole. Management is expected to address Critical Control Weaknesses brought to their attention immediately.
- **Risk Classification B: Significant Control Weakness:**
Audit findings or a combination of Control Weaknesses that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses generally will require prompt corrective actions.
- **Risk Classification C: Control Weakness:**
Audit findings concerning internal controls, or compliance issues that require management's corrective action to implement or enhance processes and internal controls. Control Weaknesses are expected to be addressed within our follow-up process.
- **Risk Classification D: Opportunity for Improvement:**
Audit findings concerning opportunities for improvement or efficiency/effectiveness issues that require management's consideration to implement or enhance processes. Opportunities for improvement are expected to be addressed within our follow-up process.

The current status of implementation of recommendations will be followed up no later than the end of the second fiscal year after the report has been issued. Critical control weakness findings will be followed up between six months and one year of the date of the report.