

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, 2013 through June 30, 2015

Engagement No: 3485  
Report Date: June 30, 2016



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Auditor-Controller-Treasurer-Tax Collector

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## Executive Summary

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As a part of the 2015-2016 Annual Audit Plan, the Internal Audit Division 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, 2013 to June 30, 2015 and determined that:

- Both funds were managed in accordance with the Trust Funds' Policies and Procedures Manual (Manual) developed by the Sonoma County Sheriff's Office and relevant laws.
- Profit from the Commissary operations was transferred to the IWTF as required by the Manual and the Penal Code Section 4025.
- There were no current year observations and recommendations. The prior year observations, recommendations on improving internal control procedures and the implementation status, are discussed starting on page 8.
- The revenues and expenditures in the Annual IWTF and JSTF Reports (pages 12 - 15) represent transactions executed in compliance with the Manual and the law.

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## Introduction and Background

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### Introduction

We have completed an audit of the Sonoma County Sheriff's Office (Office) Inmate Welfare and Jail Store Trust Funds for the period July 1, 2013 through June 30, 2015. We conducted our audit in accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*. These Standards require that we 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 results, observations, and recommendations contained in our report.

The purpose of this audit report is to furnish management 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.

### Background

As authorized under the California Penal Code Section 4025, the Office established a County Jail Commissary (Commissary) to purchase and sell goods and supplies to inmates. The Office manages the IWTF and the Commissary. Profits from the Commissary operations, in addition to commissions earned from inmate phone call charges and interest earned by IWTF, are to be used by the Office primarily for the benefit, education and welfare of the inmates per the Code Section.

During our audit period, the Office managed approximately \$1.4 million of inmate funds that involved the following three interrelated areas:

- **Inmate Trust Accounts** - The Office maintains a trust account for each inmate to account for the monies he/she arrived with and subsequent receipts and disbursements as authorized by the inmate. The balance is returned to the inmate upon release.
- **The Inmate Welfare Fund** - This fund is maintained to account for the receipt and use of all funds covered by the Penal Code Section 4025.
- **The Jail Commissary** - The Commissary is operated by the Office for the benefit of the inmates. A variety of products are sold to inmates at competitive prices. All profits are transferred to the IWTF in accordance with the Penal Code Section 4025. The activities of the Commissary are accounted for in the JSTF.

When an inmate is booked into custody, an account is set up in the Sheriff's accounting system (UNIX) to account for the money in the inmate's possession. Additional money may be deposited in their accounts via the jail lobby kiosks, telephone or the internet. Inmates may spend the money in their accounts for Commissary items, phone cards, or other purposes.

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## Introduction and Background

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IWTF is set up as a fund in the County's financial accounting system. For the fiscal years ended June 30, 2014 and June 30, 2015, this fund had \$374K & \$341K in revenues, excluding transfers from JSTF and \$663K & \$ 617K in expenditures respectively.

The IWTF's primary source of revenue is profits from the operation of the Commissary transferred annually from the JSTF. The fund's other significant revenue source is the commissions earned from the telephone vendor on charges for telephone calls initiated in the jail facilities. IWTF earns 59% in commissions from charges for telephone calls made from the jail.

During the audit period, IWTF's largest expenditure, in the amount of \$430k was for inmate drug and alcohol abuse counseling services, paid to the Sonoma County Health Services Department (HSD). Other significant expenditures were salary reimbursement costs for Program Officers and Detention Assistants (\$381K); inmate educational programs performed by Sonoma County Office of Education (\$120K) and the inmate law library (\$59K).

The Office operates a Commissary, located in the Main Adult Detention Facility (MADF), to serve inmates at the MADF as well as the North County Detention Facility (NCDF). The prices for Commissary items are aimed to be comparable to convenience store prices. All profits generated from Commissary sales benefit the inmates by funding the IWTF's programs and providing other inmate recreational materials. For the period covered by our audit, \$992k in profits were transferred to IWTF and \$150k was retained as operating reserve.

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## Objectives and Scope

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### Objectives

The objectives of this audit were to determine whether:

1. Inmate accounts were maintained in compliance with the Manual and relevant laws, including Government Code Sections 26640, 26641, 26642, 26643, and 26646.
2. The money deposited in the IWTF was expended in accordance with the Manual and relevant laws, including Penal code Section 4025.
3. Profits from the operations of the jail Commissary were transferred to the IWTF in accordance with the Manual 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 Manual and the law.

### Scope

The audit covered the period July 1, 2013 through June 30, 2015. The scope of our work included but was not limited to the following:

- A preliminary survey to update our knowledge of the operating environment; 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.

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 Manual.

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## Procedures

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We performed the procedures outlined below, to achieve our audit objectives:

1. Examined a sample of monthly bank reconciliations.
2. Examined documentation and procedures relating to cash counts and reconciliations to department records.
3. Examined support for management and IWTF Committee approvals of trust fund expenditures.
4. Selected a sample of IWTF and JSTF expenditures, and examined supporting documents (purchase order, receiving report, vendor's invoice, and check).
5. Gained understanding of the Office's cost allocation process relevant to the audit.
6. Performed revenue analysis for IWTF and JSTF based on inmate population and prior year actual and current year budgeted account balances.
7. Performed expenditure analysis for IWTF and JSTFs based on inmate population and prior year actual and current year budgeted account balances.
8. Reviewed internal controls over inventory.
9. Recalculated debit card revenue based on the number of cards sold per debit card perpetual records.
10. Evaluated selected aspects of Commissary operations including profit transfers.

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## Results

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**Objective #1: Inmate accounts were maintained in compliance with the Manual and relevant laws, including Government Code Sections 26640, 26641, 26642, 26643, and 26646.**

We determined that inmate accounts were maintained in compliance with the Manual and relevant laws.

The Office's key controls over inmate accounts consist of 1) issuance of system generated receipts to respective inmates supporting the account balance, disbursements, and deposits and 2) monthly reconciliation of the total inmate funds per UNIX and Touchpay systems to the total of cash on hand, cash in treasury and bank deposits. We performed a walkthrough of these processes and conducted tests to gain assurance that required procedures were followed consistently. We noted no exceptions.

**Objective #2: The money deposited in the IWTF was expended in accordance with the Manual and relevant laws, including Penal code Section 4025.**

We determined that the money deposited in the IWTF during our audit period was expended in accordance with the Manual and relevant laws.

We tested a sample of disbursement transactions for authorization, accuracy, support, compliance with applicable laws and regulations and proper recording in the general ledger. We noted no exceptions.

**Objective #3: Profits from the operations of the jail Commissary were transferred to the IWTF in accordance with the Manual and Penal code Section 4025.**

We determined that the profits from the operations of the Commissary for the fiscal years ended June 30, 2014 and June 30, 2015 were transferred to the IWTF as required by the Manual and Penal code Section 4025. We noted that the Office is in the process of updating its policies and procedures for the establishment and use of the amount of profit to be retained as working capital, the timing of the calculation and transfer of Commissary profits and segregation of incompatible inventory related functions.



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## Results

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**Objective #4: Revenues and expenditures in the annual reports, filed with the County Board of Supervisors, represent transactions executed in accordance with the Manual and the law.**

We determined that the revenues and expenditures in the annual IWTF and JSTF Reports (pages 12 -15) represent transactions executed in compliance with the Manual.

Our procedures in this area included:

- 1) Identification and follow up of material variances between the current and prior year account balances.
- 2) Identification and follow up of material variances between actual and budgeted account balances.
- 3) Review of IWTF Committee minutes for proper approval of expenditures.
- 4) Review of policies and procedures over the operations of the Commissary.
- 5) Test of a sample of Commissary transactions.
- 6) Evaluation of reasonableness of Commissary profits based on inmate population.
- 7) Recalculation of debit card revenue based on the number of cards sold per debit card perpetual records.

We noted that the fiscal year 2013-2014 beginning fund balance and telephone card expenditures were understated by \$17,000. This understatement occurred because these expenditures were paid out of a prior year encumbrance account, which was inadvertently excluded from the fiscal year 2013-2014 financial report submitted to the Board. This issue was resolved in fiscal year 2014-2015. The fiscal year 2015-2016 beginning fund balance was reported correctly. We noted no other exceptions.

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## **Observations and Recommendations**

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### **Observations**

#### **Observation #1-Prior Year Observation (Risk Classification C):**

The Office does not have written policies addressing the timing of the calculation or transfer of the Commissary profits from the JSTF to the IWTF.

#### **Recommendation #1**

Written policies and procedures should be established that clearly describe the Commissary profit transfer process and use of Commissary operating reserves. The policy should establish the reserve balance and prescribe procedures for its monitoring, use and replenishment. The timing of the calculation and transfer of the profits should also be covered in the policy.

#### **Status: Partially implemented.**

The Office prepared draft of updated policies and procedures which includes information related to the establishment and use of the amount of profit to be retained as working capital, the timing of the calculation and transfer of commissary profits. The policy is in the process of being reviewed by the IWT Committee before it is approved by the Sheriff.

#### **Observation #2-Prior Year Observation (Risk Classification C):**

We noted the following key weaknesses in internal controls over inventory:

- 1) Physical inventory counts are performed by employees who also stock and sell inventory items.
- 2) When processing payments, the accounts payable clerk does not verify that the items purchased have been added to the perpetual inventory system.

#### **Recommendation #2**

Physical inventory counts should be performed on at least a bi-annual basis by individuals who are not involved in the processing and recording of inventory transactions. All material adjustments should be investigated and explained with detailed documentation on the adjustment sheet. The IWTF Committee should review annual inventory counts in accordance with the IWTF policies and procedures.

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## Observations and Recommendations

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Sheriff's Accounts Payable Section should match inventory items entered into the perpetual system per system generated reports, to those listed on invoices prior to processing a payment.

### **Status: Partially implemented.**

The July year-end Commissary inventory count included Sheriff's Purchasing Storekeeper as an independent participant. We noted that independent physical inventory counts are not performed on a bi-annual basis. The Office recognizes that receiving and ordering functions are not segregated. Management is continuing to review staff workload with the goal of separating the ordering and receiving duties.

### **Observation #3-Prior Year Observation (Risk Classification C):**

The Health Service Department (HSD) provides inmate drug and alcohol abuse counseling services and allocates the cost of 76% of 5.8 fulltime program employees to the Office out of which approximately 34 % is paid by IWTF. The basis for the Office's or the IWTF's share of this cost is not documented.

The Sonoma County Office of Education provides education services to inmates under a contract with the Office. The documentation provided with each billing is not sufficient for staff to ascertain that the amount being billed is accurate.

The Office has a contract with Legal Research Services (LRS) to provide research services to inmates. Charges are based on the number of pages of research information provided. The Office's staff does not verify that the number of pages used to calculate the charges agree with the number of pages of research material delivered.

### **Recommendation #3**

- a.) The Office should gain an understanding of the methodology used by HSD to allocate drug and alcohol abuse counseling services cost to the Office and IWTF and conclude as to whether or not the methodology is reasonable. The methodology should be reviewed periodically to ensure it continues to accurately estimate inmate consumption of mental health resources. Analytical procedures should be performed to ensure the charges are accurately calculated.

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## Observations and Recommendations

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- b.) The Office should gain an understanding of the methodology used by the Sonoma County Office of Education (SCOE) to calculate the charges for education services provided to inmates. Appropriate documentation should be requested to ascertain the charges are accurate.
- c.) The Office staff should ensure that the number of pages of legal research information included in bills from LRS agree with the number of pages of legal research information delivered prior to processing payment.

### **Status: Implemented**

- a) In fiscal year 2015-2016 the Office received and reviewed supporting documentation for the quarterly billing provided by HSD. The supporting documentation included a summary of services provided along with the number of classes and inmates served.
- b) The most recent billing information from SCOE itemizes salary and benefit accounting records for each instructor. A schedule of classes and inmate attendance is kept by the Program's Deputy at the Detention Facility where classes are held. While timecards for instructors are not kept, there is ongoing interaction with the Program's Deputy and the Program's Sergeant to verify activity levels. SCOE is indicating that the ADA offset will discontinue, as a result, the Office has not pursued detailed billing information.
- c) Since September, 2015 LRS monthly invoices itemizing separate responses for individual inmates are being checked against records of inmate requests kept by the Assistant Sheriff's Secretary. There are some discrepancies which will be addressed with the provider periodically once this process has been in place for a reasonable amount of time.

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## **Staff Acknowledgement**

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

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## Inmate Welfare Trust Fund Report

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**Sonoma County Sheriff's Office  
Inmate Welfare Trust Fund Report  
For the Fiscal Year Ended June 30, 2014**

<b>Beginning Fund Balance</b>		\$ 364,451
<b>Revenues</b>		
Interest		4,780
Vending Commissions		20,309
Telephone Commissions		270,550
Intake Bag Reimbursement		26,877
GovPayEXP		4,479
Jail Bond Advertising		36,000
Touch pay Messaging		1,945
Miscellaneous Revenue		9,137
Transfer from Jail Stores Trust-Phone Card		152,124
Transfer from Jail Stores Trust		<u>300,000</u>
<b>Total revenues</b>		<u>826,201</u>
<b>Expenditures</b>		
Starting Point		215,080
Salary Reimbursement Costs		194,049
Program Officers	179,836	
Detention Assistant	14,213	
Repairs to Signage		2,168
Postage		268
Inmate Newspapers		5,605
Inmate Printing		75
Scantron Scanners		21,152
DIRECTV		1,289
Inmate Equipment		31,420
Games/Athletic Equipment		1,913
Legal Research Associates (LRA)		38,289
Inmate Education Programs		93,860
Friend Outside Services		26,583
Welfare Bags		14,379
Audit		13,250
Miscellaneous		<u>3,782</u>
<b>Total operating expenditures</b>		<u>663,162</u>
<b>Total operating income (loss)</b>		<u>163,039</u>
<b>Change in fund balance</b>		163,039
<b>Beginning fund balance</b>		<u>364,451</u>
<b>Ending Fund Balance</b>		<u><u>527,490</u></u>

See Note 1 & 2 on page 16

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## Inmate Welfare Trust Fund Report

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**Sonoma County Sheriff's Office  
Inmate Welfare Trust Fund Report  
For the Fiscal Year Ended June 30, 2015**

<b>Beginning Fund Balance</b>		\$ 531,676
<b>Revenues</b>		
Interest		5,990
Unrealized Gains & Losses		(2,207)
Vending Commissions		16,552
Telephone Commissions		238,259
Intake Bag Reimbursement		25,851
GovPayEXP		2,428
Jail Bond Advertising		42,720
Touch pay Messaging		2,530
Prior Year		800
Miscellaneous Revenue		8,563
Transfer from Jail Stores Trust-Phone Card		140,007
Transfer from Jail Stores Trust		<u>400,000</u>
<b>Total revenues</b>		<u>881,493</u>
<b>Expenditures</b>		
Starting Point		215,080
Salary Reimbursement Costs		186,659
Program Officers	176,394	
Detention Assistant	10,265	
Maintenance		881
Postage		43
Inmate Newspapers		5,347
DIRECTV		1,294
Inmate Equipment		12,185
Inmate Incentives		21,391
Legal Research Associates (LRA)		20,773
Inmate Education Programs		106,337
Friend Outside Services		16,917
Welfare Bags		17,926
Accounting		4,199
Miscellaneous		<u>7,764</u>
<b>Total operating expenditures</b>		<u>616,796</u>
<b>Total operating income (loss)</b>		<u>264,697</u>
<b>Change in fund balance</b>		264,697
<b>Beginning fund balance</b>		<u>531,676</u>
<b>Ending Fund Balance</b>		<u><u>796,373</u></u>

See Note 1 & 2 on page 16

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## Jail Store Trust Fund Report

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**Sonoma County Sheriff's Office  
Jail Store Trust Fund Report  
For the Fiscal Year Ended June 30, 2014**

<b>Beginning Fund Balance*</b>	\$ 100,000
<b>Revenues</b>	
Commissary Sales	1,351,205
Vending Machine Sales	52,789
Recycling Revenue	334
<b>Total revenues</b>	<u>1,404,328</u>
<b>Expenditures</b>	
<b>Salary and Benefits</b>	
Salary/Benefits	216,436
<b>Total salary and benefits expenditures</b>	<u>216,436</u>
<b>Merchandise Expenditures</b>	
Notions	56,909
Telephone Cards*	154,800
Snacks	366,988
Stationary	6,257
Postage	42,914
Vending	49,585
<b>Total merchandise expenditures</b>	<u>677,453</u>
<b>Operating Expenditures</b>	
Uniforms	1,070
Supplies	1,079
Overhead	36,441
Repairs	1,423
Printing	3,492
Data Processing	4,521
Audit	8,000
<b>Total operating expenditures</b>	<u>56,026</u>
<b>Operational Transfers</b>	
Transfer to IWT	300,000
Phone Card Revenue to IWT	152,124
<b>Total operational transfers</b>	<u>452,124</u>
<b>Taxes</b>	
Sales Tax	11,348
<b>Total sales tax</b>	<u>11,348</u>
<b>Total expenditures and operating transfers</b>	<u>1,413,387</u>
<b>Change in fund balance</b>	(9,059)
<b>Beginning fund balance</b>	<u>100,000</u>
<b>Ending fund balance</b>	<u>\$ 90,941</u>

See Note 1 & 2 on page 16

\* See page 7 of the report



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## Jail Store Trust Fund Report

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**Sonoma County Sheriff's Office**  
**Jail Store Trust Fund Report**  
**For the Fiscal Year Ended June 30, 2015**

<b>Beginning Fund Balance</b>	\$ 92,123
<b>Revenues</b>	
Commissary Sales	1,358,142
Vending Machine Sales	45,268
Recycling Revenue	647
Unrealized Gains/Losses	648
Cancelled warrants	<u>(1,952)</u>
<b>Total revenues</b>	<u>1,402,753</u>
<b>Expenditures</b>	
<b>Salary and Benefits</b>	
Salary/Benefits	<u>224,987</u>
<b>Total salary and benefits expenditures</b>	<u>224,987</u>
<b>Merchandise Expenditures</b>	
Notions	51,701
Telephone Cards	106,600
Snacks	355,993
Stationary	7,985
Postage	39,209
Vending	<u>36,887</u>
<b>Total merchandise expenditures</b>	<u>598,375</u>
<b>Operating Expenditures</b>	
Uniforms	1,442
Supplies	689
Overhead	37,534
Repairs	3,342
Printing	11,148
Data Processing	<u>4,523</u>
<b>Total operating expenditures</b>	<u>58,678</u>
<b>Operational Transfers</b>	
Transfer to IWT	400,000
Phone Card Revenue to IWT	<u>140,007</u>
<b>Total operational transfers</b>	<u>540,007</u>
<b>Taxes</b>	
Sales Tax	<u>12,386</u>
<b>Total sales tax</b>	<u>12,386</u>
<b>Total expenditures and operating transfers</b>	<u>1,434,433</u>
<b>Change in fund balance</b>	(31,680)
<b>Beginning fund balance</b>	<u>92,123</u>
<b>Ending fund balance</b>	<u>\$ 60,443</u>

See Note 1 & 2 on page 16

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## Notes

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

These cash basis Trust Statements were prepared for the purpose of presenting revenues and expenditures of the Inmate Welfare Trust and Jail Store Trust pursuant to the 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 the California Penal Code Section 4025.

### **Note 2: Fiscal Year 2014-2015 beginning Fund Balances for Inmate Welfare Trust and Jail Store Trust Fund Reports Presentation**

Fiscal year 2014-2015 beginning fund balances do not agree to fiscal year 2013-2014 ending fund balances due to unrealized gain/loss on investments that was booked in the County's Financial System (EFS) starting fiscal year 2014-2015 for financial reporting purposes.

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## Appendix A-Report Item Risk Classification

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For purposes of reporting our audit findings and recommendations, we classify audit report items into three 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 Findings 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 Findings:**  
Audit findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.

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.