



**Travis County Sheriff's Office
Commissary, Inmate Welfare, and Inmate Trust
Examination**

#13-03

November 20, 2013

TRAVIS COUNTY
AUDITOR'S OFFICE

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October 4, 2013

The Honorable Greg Hamilton
Travis County Sheriff

RE: Examination of Commissary, Inmate Welfare and Inmate Trust accounts

Scheduled as part of our statutory requirements, particularly those in Section 511.016 of the Government Code and Section 351.0415 of the Local Government Code, the Risk Evaluation and Consulting (REC) Division of the Travis County Auditor's Office has completed a review of the Travis County Sheriff's Office (TCSO) Commissary, Inmate Welfare, and Inmate Trust accounts. We conducted our examination in accordance with the applicable statutes governing the County Auditor's Office and those relating to County financial and accounting protocols. As a result of our examination, we are providing this report on our findings and recommendations.

BACKGROUND

When an individual is booked in the Travis County corrections system, any funds in their possession are deposited into a trust account in their name. In addition, their family members and acquaintances may send funds to TCSO to be posted to the inmate's accounts. These funds may be used to reimburse the County for certain medical expenses and can be used to make purchases from the Jail Commissary.

Products that may be purchased from the Commissary include selected food items, writing utensils, toiletries, and clothing. Inmates can obtain hygiene products and writing materials without a charge. The profits from the Commissary are transferred to the Inmate Welfare account, which is used to purchase products and services for the benefit of the inmates, such as sporting equipment or GED testing.

SCOPE OF EXAMINATION

This examination included an assessment of the adequacy and effectiveness of the overall system of financial controls in place for the Commissary's accounting system during the period January 1, 2012 to December 31, 2012. While we conducted reviews of accounting-related controls, this examination did not include operational reviews of the Commissary.

The scope of this examination included an examination of the controls over handling and managing sales, liabilities, receivables, and bank reconciliations. We also evaluated the internal controls for handling and managing collections, refunds, inventories, bidding, and fixed assets.

EXAMINATION METHODOLOGY

Our work was based on applying sampling procedures to office records and on verbal and written representations from this office. Sampling relates to examining, on a test basis, evidence supporting the amounts and disclosures in the financial records and statements. The use of sampling techniques would not necessarily disclose all matters in the Commissary's financial statements, financial records, and financial controls that might be material weaknesses or misstatements. In regards to the written and verbal representations made by this office, unless otherwise noted in this report, office management maintains that the assertions we relied upon in the examination were correct to the best of their knowledge.

SUMMARY OF FINDINGS

Finding #1: We determined that Commissary bidding practices were not statutorily compliant. Suppliers for commissary inventory should be subject to a formal bidding process every five years. However, no formal bidding process is currently in place.

Finding #2: We noted discrepancies in commissary sales transactions, including quantities ordered, prices charged, and inmate signatures on received products.

Finding #3: Some Commissary sales tax calculations were found to be inaccurate, and a portion of an Inmate Welfare disbursement was deemed to be in error.

OVERVIEW OF RESPONSES BY MANAGEMENT TO NOTED FINDINGS

Overall, TCSO agreed with the findings of this examination and is actively working on an action plan to alleviate them. Specifically, TCSO is currently transitioning Commissary operations to an outside vendor who will also be responsible for a large portion of inmate accounting processes. TCSO believes that the system improvements available from the outside vendor will

improve the overall internal controls environment and correct the issues noted in our examination. The conversion to the outside vendor began October 25, 2013.

OPINION OF INTERNAL CONTROL SYSTEM

Based upon our examination, we gave the overall system of financial controls for the Commissary a rating of “Adequate” indicating an overall solid system of internal controls that outweighs the relatively minor findings from the examination.

ATTACHMENTS

Attachment A: This attachment contains descriptions for each of the ratings we use to describe the effectiveness of the internal controls environment for the functional area under review.

Attachment B: Details of our findings, our recommendations, and management's responses to these issues can be found in Attachment B. Immediately after the title of each control issue listed in this attachment, we have placed our assessment of the severity of that particular issue in parenthesis. These items are assessed as having “Most Serious”, “Serious” or “Less Serious” Significance.

Attachment C: Copies of this office’s financial statements for December 31, 2012 are provided in Attachment C. These statements include a trial balance detailing the consolidation of the inmate welfare and commissary funds. The express purpose of presenting these statements is to provide feedback to Travis County officials. These financial statements have not been audited by Travis County’s external auditors.

EXAMINATION TEAM

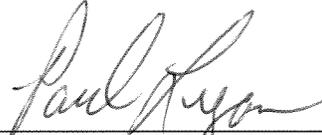
David Jungerman, Senior Auditor
Woody Whitten, Staff Auditor
John Gomez, Staff Auditor
Amanda Muehlberg, Staff Auditor

CLOSING

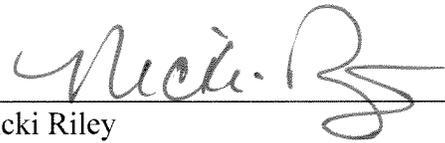
This report is intended solely for the information and use of your office and the Commissioners’ Court. We greatly appreciate the cooperation and assistance received from the management and staff of the Travis County Sheriff’s Office during this examination. Please contact us if you have any questions or concerns regarding this report.



David Jungerman
Manager - Risk Evaluation and Consulting
Division



Paul Lyon
First Assistant County Auditor



Nicki Riley
Travis County Auditor

REPORT DISTRIBUTION

The Honorable Lora Livingston, Judge, 261st Judicial District
The Honorable Julie Kocurek, Judge, 390th Judicial District
The Honorable Brenda Kennedy, Judge, 403rd Judicial District
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Leslie Browder, County Executive, Planning and Budget Office
Jessica Rio, Director, Planning and Budget Office
Managers, Travis County Auditor's Office
Examination File

ATTACHMENT A – INTERNAL CONTROLS RATING KEY

A good internal control system reduces the risk of errors, defalcations, and misappropriations of funds. Weak internal control systems provide an environment in which errors, defalcations, and misappropriations of funds can go undetected. The following details the various grades we assign to internal control systems:

RATING	RATING DESCRIPTION
Good	Well-established internal controls with few, if any, minor weaknesses noted
Adequate	The overall solid system of internal controls is sufficient to outweigh noted weaknesses
Requires Improvement	Internal control weaknesses exist that moderately impact the overall system of internal controls
Requires Significant Improvement	Significant internal control weaknesses exist that negatively impact the overall system of internal controls
Inadequate	The existing system of internal controls is materially ineffective

ATTACHMENT B - DETAILED EXAMINATION RESULTS

Finding #1: Commissary Bidding Practices were not statutorily compliant (Less Serious)

TCSO purchases commissary inventory items from five different vendors, all without a purchasing contract. The TCSO Financial Manager stated that TCSO has been purchasing products from these vendors for a number of years, and that he periodically calls each vendor to compare prices.

It appears that TCSO does not purchase products for the commissary inventory from a vendor under a contract, nor does TCSO have formalized, regular bidding processes in place for these vendors.

Significance:

Local Government Code Section 351.0415(b)(3) - COMMISSARY OPERATION BY SHERIFF OR PRIVATE VENDOR states the following:

(b) The sheriff or the sheriff's designee:

(3) shall accept new bids to renew contracts of commissary suppliers every five years.

Recommendation:

The above process for ordering the commissary inventory will soon be obsolete, because the TCSO commissary has contracted with an outside vendor to take over commissary operations.

Management Response:

TCSO Finance agrees with the recommendation. The TCSO Commissary has already contracted with Keefe to manage the inventory system at the Commissary. The conversion to Keefe is expected to be complete in late calendar year 2013. The contract is only for duration of three (3) years although the Sheriff's Office does have the option to extend the contract for two (2) additional one (1) year terms.

Finding #2: Various errors were noted in commissary sales transactions (Less Serious)

During the examination period, TCSO processed 25,561 commissary sales transactions totaling \$455,831.65, of which we sampled 25 (.1%) totaling \$906.80, noting the following:

- For five commissary sales, the prices charged per the commissary receipt did not match the prices listed on the commissary order form. In each case, the price charged to the inmate was less than the price listed on the order form. The net result for these five items was \$1.60 in lost commissary revenue.
- For one commissary sale (for Booking #1244982), the quantities for two items ordered did not agree to the quantities sold per the commissary receipt. This resulted in the inmate receiving incorrect products and being overcharged \$1.

- The signature on the jail roster (a listing of inmate signatures acquired to acknowledge receipt of commissary goods) for one commissary sale (for Booking #1236419) did not match the inmate's signature on the commissary order form. It appears that the signature on the jail roster for this inmate is the same as the signature for the two inmates listed immediately above and below on the jail roster. It would appear that the same person signed the jail roster for all three inmates.
- In two instances, the most recently revised commissary order form was not used by the inmate to place their order. The updated order form reflected price and product changes that the applicable inmates may not have been aware of due to the out-of-date form.

Significance/Recommendation:

In this case, incorrect pricing of items in Tiburon lead to lost commissary revenues. TCSO Commissary staff should regularly verify that all prices in Tiburon are correct and are in agreement with the prices published on the most current commissary order form.

TCSO Commissary staff should strive to eliminate keying errors when filling commissary orders to help ensure that inmates receive the exact quantities they order so that they are not over- or undercharged for their purchases.

In order to help ensure that inmates receive their orders and accept the orders as filled, it is important that those TCSO employees charged with collecting inmate signatures attempt to have each inmate sign the jail roster as orders are delivered.

In order to help prevent pricing discrepancies, Commissary personnel should verify that the most current commissary order form is being used by inmates to place their orders.

Management Response:

TCSO Finance agrees with the recommendations of the Auditors. The manual process by which commissary orders are made and entered into Tiburon are susceptible to all sorts of human error. Luckily, the automation of the ordering process provided by Keefe (conversion began October 25, 2013) will eliminate the need to print manual order forms (order forms will be on a kiosk and prices will be updated daily) and this will eliminate the need to "key-in" orders in Tiburon. Accordingly, errors associated with the incorrect order form being used, the price charged, or the quantity ordered will be eliminated. We will continue to monitor delivery errors, implementing new training or controls as needed.

Finding #3: Some Commissary sales tax calculations were found to be inaccurate, and a portion of an Inmate Welfare disbursement was deemed improper (Less Serious)

For the examination period, there were 178 inmate welfare disbursements totaling \$483,184 and 198 commissary disbursements totaling \$1,872,053. Of these, we sampled 44 (24%) inmate welfare disbursements totaling \$171,554 and 27 (13%) commissary disbursements totaling \$394,442.

Inmate Welfare Disbursements:

A \$2,065 disbursement for Cummins-Allison Corporation was made for the annual maintenance on TCSO's 14 cash counting machines. However, one of these machines was sold at auction on December 12, 2011.

Commissary Disbursements:

The State of Texas requires that counties obtain a sales tax permit and pay sales tax on many of the products the Commissary sells. However, like a grocery store, some items are taxable and others are not. During our review, we noted 17 commissary products that were tax exempt upon which TCSO was charging sales tax and three taxable products upon which we were not charging sales taxes. We are not currently able to determine the dollar value of these items, but the over and under-remittance of sales taxes does not appear to be material.

Significance:

Local Government Code Section 351.0415(c) COMMISSARY OPERATION BY SHERIFF OR PRIVATE VENDOR states the following:

(c) The sheriff or the sheriff's designee may use commissary proceeds only to:

- (1) fund, staff, and equip a program addressing the social needs of the inmates, including an educational or recreational program and religious or rehabilitative counseling;*
- (2) supply inmates with clothing, writing materials, and hygiene supplies;*
- (3) establish, staff, and equip the commissary operation and fund the salaries of staff responsible for managing the inmates' commissary accounts;*
- (4) fund, staff, and equip both an educational and a law library for the educational use of inmates; or*
- (5) fund physical plant improvements, technology, equipment, programs, services, and activities that provide for the well-being, health, safety, and security of the inmates and the facility.*

The maintenance costs on the cash counting machine that was sold at auction do not qualify as allowable expenditures under the above statute.

Also, as stated above, the State of Texas requires that sales taxes be collected and remitted to the State on many products sold by the Commissary.

Recommendation:

TCSO has already received a credit memo for the amount paid for maintenance on the cash counting machine that was auctioned in 2011. This credit was applied to the Inmate Welfare account.

TCSO should regularly review the Texas State Comptroller's list of taxable and non-taxable items, verifying that sales taxes are being collected in an appropriate manner.

Management Response:

As for the issue regarding tax collection, upon the findings of the internal audit, TCSO Finance corrected the tax coding within Tiburon to correct the discrepancies found. This fix took effect on February 1, 2013. Moreover, with the automation of the TCSO Commissary ordering system via a contract with Keefe (conversion began October 25, 2013), this issue will not be an issue going forward.

ATTACHMENT C – FINANCIAL STATEMENTS

**TCSO Commissary & Inmate Welfare Accounts
Special Revenue Fund
Detailed Combined Trial Balance
12/31/2012**

	Commissary	Inmate Welfare	Combined
<u>Assets</u>			
Cash	\$ 489,091	\$ 42,449	\$ 531,540
Due from other funds	-	-	-
<u>Liabilities</u>			
Accounts payable	(29,082)	(4,847)	(33,929)
Due to other funds	(84,660)	(13,377)	(98,037)
Due to other governmental entities	(3,703)	-	(3,703)
Other liabilities	-	-	-
<u>Revenues</u>			
Intergovernmental	(439,412)	-	(439,412)
Investment income	(98)	(20)	(118)
<u>Expenditures</u>			
Personnel Costs	125,455	20,180	145,635
Supplies	203,071	27,199	230,270
Other Charges	471	19,512	19,983
<u>Fund Balance</u>			
Beginning Fund Balance	(261,133)	(91,096)	(352,229)
Totals	\$ -	\$ -	\$ -

NOTE: The express purpose of presenting this financial statement and the appropriate findings is to comply with applicable local government code statutes and to provide internal control feedback to Travis County officials. This financial statement has not currently been audited by Travis County's external auditors.

**TCSO Commissary & Inmate Welfare Accounts
Special Revenue Fund
Detailed Statement of Revenues, Expenditures,
and Changes in Fund Balance
For the 3 Months Ended 12/31/12**

Revenues:

Charges for services:		
Commissary	\$	439,412
Inmate Welfare		-
Investment Income		118
Total Revenues		439,530

Expenditures:

Current:		
Corrections and rehabilitation:		
Commissary:		
Personnel Costs		125,455
Supplies		203,071
Other Charges		471
Inmate Welfare:		
Personnel Costs		20,180
Supplies		27,199
Other Charges		19,512
Debt service		-
Total expenditures		395,888

Excess (deficiency) of revenue over expenditures	43,642
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Other financing sources (uses):

Operating transfers in	-
Operating transfers out	-
Total other financing sources (uses)	-

Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	43,642
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Fund balance beginning of period	352,229
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Fund balance end of period	\$ 395,871
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NOTE: The express purpose of presenting this financial statement and the appropriate findings is to comply with applicable local government code statutes and to provide internal control feedback to Travis County officials. This financial statement has not been audited by Travis County's external auditors.

**TCSO - Commissary & Inmate Welfare Accounts
Special Revenue Fund
Balance Sheet
12/31/2012**

<u>Assets</u>	
Cash	\$ 531,540
Total assets	\$ 531,540
<u>Liabilities and Fund Balance</u>	
Liabilities:	
Accounts payable	\$ 33,929
Due to other funds	98,037
Due to other governmental entities	3,703
Total liabilities	135,669
Fund Balance:	
Reserved for encumbrances	-
Unreserved - Designated for Inmate Welfare	395,871
Total fund balance	395,871
Total liabilities and fund balance	\$ 531,540

NOTE: The express purpose of presenting this financial statement and the appropriate findings is to comply with applicable local government code statutes and to provide internal control feedback to Travis County officials. This financial statement has not currently been audited by Travis County's external auditors.

**TCSO - Inmate Trust Accounts
Agency Fund
Balance Sheet
12/31/2012**

Assets

Cash	\$	125,715
Accounts receivable, net		3,350
Total assets		129,065

Liabilities

Other liabilities		129,050
Due to other governmental entities		15
Total liabilities		129,065
Net Assets	\$	-

NOTE: The express purpose of presenting this financial statement and the appropriate findings is to comply with applicable local government code statutes and to provide internal control feedback to Travis County officials. This financial statement has not currently been audited by Travis County's external auditors.