



**METROPOLITAN GOVERNMENT OF
NASHVILLE AND DAVIDSON COUNTY**

OFFICE OF INTERNAL AUDIT

Professional Audit and Advisory Service

FINAL REPORT

**Audit of Davidson County Sheriff's Office
Revenue and Collections**

Date Issued: June 12, 2009

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*The Metropolitan Nashville Office of Internal Audit is an independent audit agency
reporting directly to the Metropolitan Nashville Audit Committee*

EXECUTIVE SUMMARY

June 12, 2009

Results in Brief	Recommendations
<p>Our office performed an audit of the processes and controls in place pertaining to revenue and collections for the Davidson County Sheriff's Office (DCSO.) Key audit objectives and conclusions are as follows:</p> <ul style="list-style-type: none"> • Is all revenue reported by the DCSO real and properly recorded? Yes. No material weaknesses or significant issues were noted. • Is revenue deposited in the bank within one business day and recorded in the EBS accounting system within two business days as recommended by Metro's Treasurer? Generally, no. Our office noted deposits and accompanying accounting entries made between three (3) and 60 days after receipt. • Are cash receipts properly secured? Generally, yes. No material weaknesses or significant issues were noted. • Are deductions in the Work Release and Inmate Trust Fund for legitimate inmate services? Yes. No material weaknesses or significant issues were noted. 	<p>Key recommendations of this report include:</p> <ul style="list-style-type: none"> • DCSO Management should eliminate or reconcile the undetermined \$362,942 difference that has been historically carried forward in the monthly reconciliation. If the amount cannot be reconciled, the funds should be recouped into the General Fund from the Work Release and Inmate Trust Account. • DCSO Management and Department of Finance should work together to restructure the Work Release and Inmate Trust Fund EBS journal entries to use balance sheet accounts rather than income statement accounts. • The DCSO should ensure all safes used to secure revenue receipts are securely bolted down or otherwise secured. • DCSO Management should ensure all remittances are deposited in the bank within one business day and recorded in the EBS accounting system within two business days. • DCSO Management should develop and implement procedures that will ensure accountability for custody transfer of revenue receipts. <p>Management's response can be seen in Appendix A.</p>

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INTRODUCTION

BACKGROUND

The Davidson County Sheriff's Office (DCSO) is responsible for housing and transporting inmates in the Davidson County Justice System. Their mission statement is: "With a commitment to excellence, we strive to be the leader in the field of corrections, service of civil process, and innovative community based programs, emphasizing: accountability, diversity, integrity, professionalism." In addition to the transportation and care of inmates, the Davidson County Sheriff is responsible for accounting and distributing inmate funds to outside agencies, individuals and to the inmates themselves.

The DCSO operates five separate detention facilities throughout the Davidson County area. These facilities are listed below:

Criminal Justice Center: Inmates are booked at this Center before they are assigned and transferred to one of the other detention centers. This Center also houses all male inmates who are classified as maximum security, inmates who need direct medical supervision or have other special care needs.

Hill Detention Center: This Center houses up to 474 inmates, primarily low risk pre-trial felons.

Correctional Development Center - Female: This Center houses up to 508 female inmates.

Correctional Development Center - Male: This Center houses up to 768 male inmates.

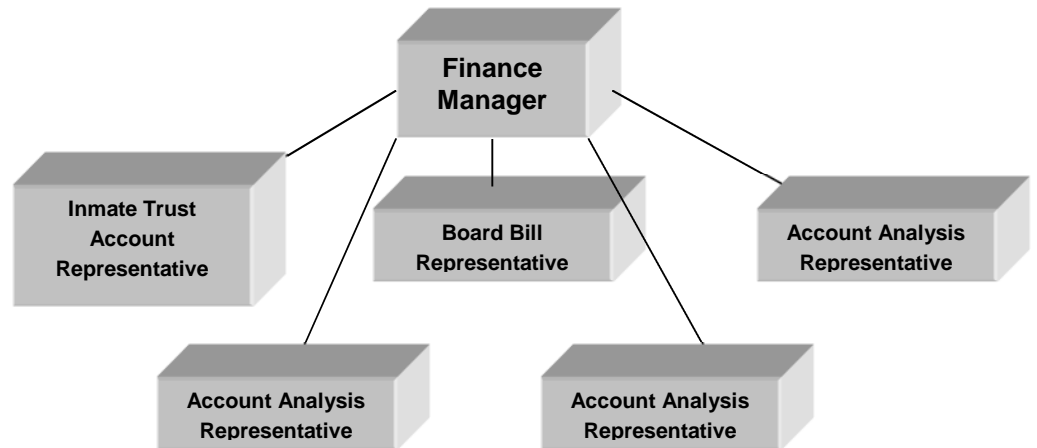
Offender Re-entry Center: This Center serves as the "focal point for inmate programming." The DCSO strives to provide programs that help inmates overcome the issues that contributed to their incarceration. The DCSO attempts to have each inmate participate in a work program in order to help develop valuable skills and to help offset the cost of incarceration.

Organizational Structure

The DCSO has a staff of over 800 employees and is segregated into four separate divisions. The Chief Deputy heads the first division. This division is responsible for the Armed Services Division, DUI Safety Center, Inmate Programs, Office of Standards and Accountability and Pre-Trial Services. The Chief of Administration is in charge of the second division and is responsible for areas such as Human Resources, Legal Support, Records Management, Technology and Training. The Chief of Staff heads the third division. This division encompasses Community Services, Community Outreach, Civil Warrants and Community Relations. The fourth division is lead by the Chief of Corrections who is responsible for all detention facilities.

The Office of Internal Audit (OIA) noted that activities pertaining to revenue collection reside with the DCSO Finance Division operating under the Chief of Administration. The Organizational Chart for the DCSO Finance Division is summarized in Exhibit A below.

Exhibit A - DCSO Finance Organizational Chart



The OIA noted that the Finance Manager periodically rotates staff among the different positions to promote cross training and enhance the control environment.

Significant Revenue Streams for the DCSO

The scope of the audit pertained to the DCSO revenue and collection cycle (referred to in this report as ‘revenue.’) The DCSO has over 30 distinct revenue streams. The OIA divided the revenue streams into four broad categories as described in Exhibit B.

Exhibit B - Major Revenue Streams July 1, 2004 through October 31, 2008

Description	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009 ¹	Total	Percent
Government Entities	\$21,897,802	\$21,750,702	\$21,729,175	\$24,264,109	\$3,993,561	\$93,635,348	86
Work Release and Inmate Trust Account	2,372,071	2,953,436	3,396,787	474,402	839,420	10,036,116	9
Cash: Non-government/non Inmate Trust	947,211	959,101	1,235,642	1,431,206	469,229	5,042,389	4
Other	137,105	46,125	48,360	33,698	(8,055)	257,232	1
Total	\$25,354,188	\$25,709,364	\$26,409,964	\$26,203,415	\$5,294,155	\$108,971,086	100

A brief summary of the major revenue sources from July 1, 2004 to October 31, 2008 representing over \$108 million is presented in Exhibit C through Exhibit E.

¹ Total amount between July 1, 2008 and October 31, 2008

Exhibit C – Government Entities Revenue Streams July 1, 2004 through October 31, 2008

Description	Receipt From	Receipt Form	Total
Jail Inmate Reimbursement	State	ACH Transfer	\$83,604,770
Serve Summons - Both In and Out-of-County	Circuit Court Journal Entry	Journal Entry	7,142,096
All Grants	Various	Various	2,554,439
Federal Subsidy – Finders’ Fee	Federal	ACH Transfer	334,044
Total			\$93,635,348

The largest source of revenue stems from Jail Inmate Reimbursements. These revenues are received primarily from the Federal Government and the State of Tennessee. A second significant source of revenue is generated from the issuance of warrants. The DCSO is charged with the execution of warrants in Davidson County. Parties requesting warrants are charged a fee for this service. Finally, in terms of governmental revenues, funds are received from grant activities and the Federal Finder’s Fee (a program in which DCSO receives funds for identifying inmates receiving Social Security benefits.)

Exhibit D – Work Release and Inmate Trust Account Revenue and Collection Streams July 1, 2004 through October 31, 2008

Description	Receipt From	Receipt Form	Total
Contribute - Group	Offender/Various Parties	Offender	\$8,488,476
Inmate Processing Fees	Offender	Check from Inmate Trust	635,380
Inmate Room and Board	Offender	Check from Inmate Trust	796,118
Medical Co-Pay	Offender	Check from Inmate Trust	116,141
Total			\$10,036,116

Another important revenue stream concerns funds held in the Work Release and Inmate Trust Account. The Work Release and Inmate Trust Account is the cumulative bank accounts set up for each individual inmate housed by the DCSO. Funds in these accounts are used by the inmates to pay for purchases from the commissary, processing fees, etc. Funding for these accounts are typically received from money the inmates have on them at the time of booking and/or funds contributed to the inmate’s account by outside parties such as family members or friends.

Exhibit E – Cash: Non-Government / Non-Work Release and Inmate Trust Account Revenue and Collection Streams July 1, 2004 through October 31, 2008

Description	Receipt From	Receipt Form	Total
Telephone (all facilities)	Global Tel	Commission Checks	\$3,920,715
Offender Program	Offender	Money Orders/Cash	\$570,916
Other Program	Various	Various	388,053
Supervision Fee	Offender	Money Orders	129,193
Background Check	Various	Various	33,511
Total			\$5,042,388

Another major revenue stream consists of cash intake from Non-Governmental / Non-Work Release and Inmate Trust Account related activities. In this category, revenue is received from the contractor, Global Tel. Global Tel is a vendor used to administer telephone calls made by inmates. All calls must be made collect. Global Tel collects the fees and submits 44% of all fees generated back to the DCSO. The DCSO has also developed and implemented a number of programs designed to assist inmates in developing marketable skills that can be used after they are released to decrease the risk of subsequent incarceration. A sample of some of these programs includes the General Education Development (GED) assistance, Job Skills Programs, and Alcohol/Drug Addiction Recovery Programs. These programs typically require a nominal fee from the inmate in the form of a money order.

The final category of revenue streams consists of miscellaneous items that the DCSO has little control over and represents a very small portion of revenue, less than one quarter of a percent (.24%). These items include Metro's investment pool interest, Metro's local match for grants, unrealized gains, etc.

After analyzing the general ledger from July 1, 2004 to October 31, 2008, interviewing key DCSO staff and making judgments about the nature and inherent risk of these various revenue streams, the OIA determined to focus audit efforts for cycles representing 93% of DCSO's revenue.

- *The Jail Inmate Reimbursement Cycle* – represents approximately \$83 million, or 77%, of total revenue.
- *The Work Release and Inmate Trust Account Cycle* - represents approximately \$10 million or nine percent (9%), of total revenue.
- *The Summons Reimbursement Cycle* - represents approximately \$7 million, or seven percent (7%) of total revenue.
- *Offender Program Cycle* - represents approximately \$570,916, or less than one percent (>1%), of total revenue.

DCSO's Effort to Generate Additional Sources of Revenue

The DCSO has been proactive in generating additional sources of revenue. As mentioned above, the DCSO generated over \$108 million in non-taxpayer generated revenues since July 1, 2004. A sample of some of the programs implemented by the DCSO includes:

State Criminal Alien Assistance Program (SCAAP) – This initiative provides federal payments to states and localities that incurred correctional officer salary costs for incarcerating undocumented criminal aliens, who were incarcerated for at least four consecutive days during the reporting period, with at least one felony or two misdemeanor convictions for violations of state or local law. From July 1, 2004 to October 31, 2008, the DCSO collected \$958,567 from the *SCAAP Program*.

Immigration and Custom Enforcement (ICE) – This is a federal program identified by the DCSO which reimburses local and county governments that identify illegal immigrants housed within their prison system. The DCSO is reimbursed at a rate of \$61 per day for illegal immigrants housed beyond the length of a local sentence in corrections facilities. From July 1, 2004 to October 31, 2008, the DCSO collected \$644,941 in revenue for *ICE* reimbursements.

Finders' Fee – This is a federal program DCSO identified whereby local, state and county governments who identify inmates who are receiving Social Security benefits may be reimbursed. From July 1, 2004 to October 31, 2008, the DCSO collected \$334,044 in revenue for *Finders' Fee* reimbursements.

SCRAP – Inmates who are considered low flight and security risk may join inmate correctional services. They perform a number of tasks, including litter collection. Refuse is sorted and recyclable items (i.e. scrap metal) are transported to recycling facilities. From July 1, 2004 to October 31, 2008, the DCSO collected \$388,053 in revenue from this program.

Various Offender Programs – The DCSO provides programs which assist inmates in developing skills and habits that will help ensure an inmate is successful in not returning to jail after they are released. The DCSO has developed and implemented a variety of programs to achieve this goal. The OIA has broadly classified these programs into two areas:

- *Counseling Rehabilitation Service:* Programs to assist inmates overcome addictions to alcohol and drugs. The Offender Reentry Center offers over 20 programs in areas ranging from anger management to parenting skills.
- *Job Development Programs:* Programs that develop skills that help an inmate procure employment upon release. These programs include GED courses, classes that teach inmates a particular trade (cosmetology, etc.) and a work release program. The work release program allows inmates to maintain a job during the day thereby enhancing and/or developing skill sets and work habits necessary in obtaining and procuring employment.

The DCSO charges a nominal fee to help cover the cost for many of these programs.

Information Technology Systems used in the Revenue Cycle

The OIA noted that the DCSO employs a variety of software applications that are used for the overall management of the revenue process.

ARAMARK Correctional Trust Fund Accounting System (ACTFAS) – ACTFAS is a software system used to track individual inmate accounts for all Work Release and Inmate Trust Account activities. This software system tracks information such as contributions, distributions, processing fees, charges for commissary items, etc. Information in this system is reconciled to the bank statement and used as a basis for journal entries made into Metro’s Enterprise Business System financial accounting system.

Justice Management System (JMS) – JMS is used to keep track of the number of days an inmate is held, whether the inmate is being held for federal, state, or local charges and the specific charges for which the inmate is being held. Each inmate is provided their own unique originating case agency number which is used to identify the inmate. Each inmate is also provided with a corrections information system number which is provided for every individual offense committed by the client. The DCSO utilizes JMS to run reports used in the billing process for Jail Inmate Reimbursement and Immigration and Custom Enforcement program.

TOMIS – TOMIS is a software system, similar to JMS, which is utilized by the state to keep track of state prisoners. The TOMIS system is utilized by the state in reconciling the Jail Inmate Reimbursement Billing.

Enterprise Business System (EBS) - EBS is used to refer to Metro’s Oracle J.D. Edwards EnterpriseOne financial accounting system.

TouchPay – TouchPay provides a convenient and expedient method for various parties to apply money to an inmate’s account. Parties can place money on an inmate’s account twenty-four hours a day, seven days a week. There are currently three methods for money to be received via the TouchPay system: kiosk, telephone, and the internet. Money can be applied to an account by using credit cards, debit cards or checks. The TouchPay system was implemented on July 1, 2008.

Pre-Trial Management Software (PTALS) - PTALS helps manage activity of those offenders participating in the Pre-Trial program.

Criminal Justice Information Systems (CJIS) - CJIS helps the courts manage offenders in the justice system.

REVENUE CYCLE KEY INTERNAL CONTROLS

The OIA’s audit of the DCSO focused on four significant processes related to the revenue cycle. Specifically, the OIA noted the following key internal controls for each cycle.

Work Release and Inmate Trust Account

- Segregation of duties between the collection, custody, depositing and recording of receipts.

- Issuing receipts to inmates regarding amounts deposited or charged to their account.
- Reconciliation between amounts actually received to amounts deposited.
- Management review and approval of amounts received, deposited and recorded in the accounting system.
- Accepting only money orders as a form of payment.

Offender Program

- Issuing receipts to inmates regarding amounts deposited or charged to their account.
- Management review and approval of amounts received, deposited and recorded in the accounting system.
- Accepting only money orders as a form of payment.
- Reconciliation between amounts actually received to amounts deposited.
- Segregation of duties between the collection, custody, depositing and recording of receipts.

Serve Summons Process

- Record keeping of revenue intake for in-county summons is handled by a third party. This third party records amounts collected for DCSO through a monthly journal entry. DCSO management reviews and approves this journal entry for reasonableness.
- Safeguarding of assets.
- Management review and approval of amounts received, deposited and recorded in the accounting system for out-of-county receipts.
- Reconciliation between amounts actually received to amounts deposited.

Jail Inmate Reimbursement

- Monthly review and reconciliation by the DCSO, State and Federal Marshall's office regarding the number of days and amounts to be billed for inmates housed by the DCSO on behalf of the State and federal Government.
- Management review and approval of amounts received, deposited and recorded in the accounting system.

Office of Standards and Accountability

The DCSO has created an Office of Standards and Accountability to enhance the control environment. This office is responsible for ensuring that each functional area at the DCSO has comprehensive, written standard operating procedures. This office also provides assurance that the DCSO is in compliance with Title VI of the Civil Rights Act of 1964, the American with Disabilities Act of 1990 and the American Correctional Association requirements. Similarly, this office monitors private contracts with vendors responsible for operating within DCSO facilities (food service, commissary, etc.) and produces monthly safety, fire and sanitation reports.

OBJECTIVES AND CONCLUSIONS

Is all revenue reported by the DCSO real and properly recorded?

Generally, yes. No material weakness or significant issues were noted.

For the *Work Release and Inmate Trust Account*, the OIA selected a judgmental sample of 60 daily deposits from fiscal years 2007 and 2008 for test work. Specifically, our office agreed the amounts deposited for the day to the excel spreadsheet listing maintained by the DCSO of individual payments received, the bank statement and the amount recorded into the accounting system. The OIA also randomly selected 15 daily deposit reports from the *TouchPay* system and agreed the amounts on the report to the amounts reported on the bank statement. Finally, the OIA selected a judgmental sample of 90 Work Release and Inmate Trust Account transactions and agreed the amounts charged to the inmates account to revenue earned by DCSO supporting documentation.

For revenues pertaining to the various *Offender Programs*, the OIA obtained a listing of all participants for fiscal years 2007 and 2008. From this listing, the OIA selected a judgmental sample of 50 participants for test work and traced each participant to an attendance log, the corresponding cash receipt, bank deposit slip and bank statement. Additionally, to ascertain if the amounts received were complete, our office conducted an analytical review whereby the number of participants was multiplied by the amount charged for the program. The amount calculated was compared to the amounts recorded in the accounting system for fiscal years 2007 and 2008 for any material deviation. The OIA did note potential enhancements to the Offender Program Revenue Process (see Observation C, page 13.)

For the *Out-of-County Serve Summons Process*, the OIA judgmentally selected a sample of 90 out-of-county transactions for testing. Specifically, the OIA agreed the amount of the transaction to the payees check, the deposit slip, the bank statement and the amount recorded in the accounting system.

For the *In-County Serve Summons Process*, the OIA obtain the number of in-county warrants served by the DCSO during fiscal years 2007 and 2008, and received a listing of fees charged by the Office of the Circuit Court Clerk for summons served. The OIA attempted to perform analytical test work by calculating the amount the DCSO should have received for in-county served summon fees and comparing them to what was actually recorded in Metro's EBS accounting system. In many cases, fees were not collected on the front end resulting in revenue being received in subsequent fiscal years or never collected at all. Because of this practice, we determined that our audit test could not be completed without expanding the audit scope to include the Office of the Circuit Court Clerk. The OIA will consider the Office of the Circuit Court Clerk in developing future audit plans.

In terms of the *Jail Inmate Reimbursement cycle*, the OIA noted that the DCSO communicates extensively and performs reconciliations on a monthly basis with both the State of Tennessee and the Federal Marshal's Office on amounts billed to both entities. Both entities will compare amounts billed to their records to ascertain accuracy. The OIA reviewed two monthly billings for both the State and the Federal Marshal's Office to ascertain that a reasonable reconciliation

was being conducted between amounts billed and the services provided. The DCSSO, the State and the U.S. Marshall's Office are communicating and performing reasonable reconciliations between amounts being charged and consequently, the amounts being paid by the State and Federal Government.

The OIA noted some opportunities to enhance the reconciliation process for the *Work Release and Inmate Trust Account* (see Observation A, page 10.)

Is revenue being deposited within one business day and recorded in Metro's accounting system within two business days, as recommended by Metro's Treasury Policy #9?

Generally, no. The OIA noted deposits and accompanying accounting entries made between three (3) and 60 days after receipt (see Observation C, page 13.)

Are cash receipts properly secured?

Generally, yes. During the course of fieldwork, the OIA noted that the DCSSO secures its cash receipts in various safes located at the central office, CJC, CDC and offender program site. The OIA conducted random "spot checks" of the safes at each location noting they were all properly locked, although the safes at the CDC and Day Reporting Center were not bolted or otherwise secured (see Observation B, page 12.)

Are deductions in the Work Release and Inmate Trust Fund for legitimate inmate services?

Yes. The OIA selected a judgmental sample of 90 Work Release and Inmate Trust Fund transactions and agreed the amounts charged to the inmates account to supporting documentation. The OIA noted that all disbursements were made through the ARAMARK Correctional Trust Fund Accounting System (ACTFAS) system.

OBSERVATIONS AND RECOMMENDATIONS

A – Improve the Work Release and Inmate Trust Account Reconciliation

The OIA review of the Work Release and Inmate Trust Account reconciliation process identified the following concerns:

- Monthly reconciliations contained an unexplained \$362,942 difference.
- Monthly reconciliations were not performed in a timely manner.
- Work Release and Inmate Trust Account EBS journal entries did not reflect the activity that had occurred.

DCSO utilizes a computer system called *ARAMARK Correctional Trust Fund Accounting System (ACTFAS)* to record Work Release and Inmate Trust Account activity. There is not an interface between ACTFAS and Metro's Enterprise Business System (EBS) financial accounting system. Manual journal entries for receipts of cash are submitted to the Metro Department of Finance for Work Release and Inmate Trust Account activity to be recorded into EBS. On a monthly basis, DCSO staff will reconcile the bank statement, ACTFAS and EBS.

Recurring Unexplained Difference in Monthly Reconciliation

The Work Release and Inmate Trust Account monthly reconciliation included an unexplained \$362,942 difference. Based on interviews with DCSO staff, this amount has existed since 2003 when ACTFAS was transferred to another database. The specific breakdown of this amount cannot be determined, however, it appears that the balance pertains to an unpaid payables balance due to the Metro General Fund. These payables may involve amounts charged from the Work Release and Inmate Trust Account back to Metro's General Fund for items such as processing fees, medical co-pays, etc.

Interviews with DCSO staff and Department of Finance staff indicate attempts have been made to determine the origin of the reconciling item. ARAMARK has worked with Metro in the past to resolve this issue, but these attempts have been unsuccessful. Both the DCSO and the Department of Finance believe the only logical explanation for the item is a carryover payable from the old ACTFAS system. Consequently, the item has remained and caused the Work Release and Inmate Trust Account balance to be overstated.

Monthly Reconciliations Not Being Performed in a Timely Manner

Monthly reconciliations for the Work Release and Inmate Trust Account were not being conducted in a manner that allows for timely corrections and proper visibility. Specifically, the OIA reviewed two reconciliations conducted during fiscal years 2007 and 2008. The OIA noted that the reconciliation for November 2007 was completed on January 23, 2008, while the reconciliation for June 2008 was completed on August 18, 2008. In light of the previous reconciliation item that requires adjustment, reconciliations should be performed within a reasonable period of time and always prior to the earliest time that the following month's reconciliation could be performed.

EBS Accounting Journal Entries for the Work Release and Inmate Trust Account
 The DCSO will submit an EBS journal entry, detailed in *Exhibit G* below, to record the monthly Work Release and Inmate Trust Account activity. Historically, this was the journal entry required by the Department of Finance.

Exhibit G – Current Work Release and Inmate Trust Account Monthly Journal Entry (Fund 72101)

Expense Account 505239 – Sheriff Trust Payment		Revenue Account 409300 – Contribute Group/Individual	
Debit	Credit	Debit	Credit
xxxx			xxxx
Expense amount equals checks written less voided checks		Revenue amount equals deposits on bank statement	
Asset Account 102000 – Cash with Fiscal Agent			
		Debit	Credit
		xxxx	xxxx
		Debit or credit to offset difference between above debit and credit	

The reconciled balance between the ACTFAS system, the bank statement and EBS consistently do not agree. The OIA reviewed two reconciliations from fiscal years 2007 and 2008. In addition to the previously mentioned recurring unexplained \$362,942 difference, in the 2007 sample reconciliation month there was an additional unexplained \$162,371 difference, and in the 2008 sample reconciliation month there was an additional unexplained \$189,391 difference.

The OIA noted that in the past the DCSO investigated the possibility of changing this methodology with the Department of Finance. As of April 2009, the DCSO and Department of Finance have communicated on this issue and the Department of Finance concurs with changing the general ledger accounts utilized in the monthly EBS journal entry. Until now, the Department of Finance annually performs a year-end entry that eliminates the expense and revenue balances so that the year-end financial statements are not misstated. With the proposed method, this entry will not be needed.

Criteria:

- *The Committee of Sponsoring Organizations (COSO) Internal Control-Integrated Framework* establishes a common definition of internal controls, standards, and criteria by which organizations can assess their internal control systems. Properly reconciling transactions related to the Work Release and Inmate Trust Account is critical in ensuring an organization has established and designed a strong internal control framework.
- Generally Accepted Accounting Principles.

- GASB Statement No. 34 – *Basic Financial Statement’s and Management’s Discussion and Analysis for State and Local Governments.*

Risk:

Management decisions could be made without correct information because revenue and expense accounts are overstated in EBS during the interim months between financial reports. By not performing reconciliations in a timely fashion, the risk that material errors and other problems will not be identified is greatly increased.

Recommendations:

1. DCSO Management should eliminate or reconcile the unexplained \$362,942 difference that has been historically carried forward in the monthly reconciliation. If the amount cannot be reconciled, the funds should be recouped into the General Fund from the Work Release and Inmate Trust Account.
2. DCSO Management should ensure reconciliations are performed within a reasonable period of time and always prior to the earliest time that the following month’s reconciliation could be performed and that they include adequate supporting documentation.
3. DCSO Management and Department of Finance should work together to restructure the Work Release and Inmate Trust Fund EBS journal entry to use balance sheet accounts rather than income statement accounts. Amounts received and disbursed should be applied to balance sheet *Account 102000 – Cash with Fiscal Agent* account and *Account 208301 – Funds Held in Trust, Sheriff Inmate/Work Release.*

B – Ensure Safes for Storing Cash Collections are Secured to the Floor

Funds received at the Correctional Development Center and the Day Reporting Program were secured in locked safes, but the safes were not secured to the floor or other fixtures.

Criteria:

- *The COSO Internal Control - Integrated Framework* establishes a common definition of internal controls, standards, and criteria by which organizations can assess their internal control systems. Safeguarding assets is critical in ensuring an organization has established and designed a strong internal control framework.
- *Tennessee Code Annotated (TCA) § 41-6-105, TCA § 41-21-216, TCA § 41-21-511, TCA § 41-21-512* establish regulations for custody of prisoners’ personal belongings and funds, including earnings of inmates deposited in trust account.
- *American Correctional Association 4-ALDF-7D-11, 16 and 2-CO-1B-05-06* establish guidelines for receipt and deposit of all funds received from inmates.
- *Davidson County Sheriff’s Office Policy 1-1.255 Inmate Accounts*, states that the DCSO will comply with accounting procedures regulated by the appropriate authority for safeguarding of the assets of inmates

Risk:

The possibility exists that the safes could themselves be removed.

Recommendation:

DCSO Management should ensure all safes used to secure revenue receipts are securely bolted down or otherwise secured.

C – Ensure Timely Bank Deposits and Recording in Accounting System

Payments received for the various Offender Programs and Out-of-County Summons were not being submitted to the bank for deposit within one business day as recommended by Metro's Treasurer. Specifically, 41 out of 50 (82%) of the payments tested for the Offender Programs and 62 out of the 90 (68%) items tested for the Out-of-County Summons test work were not deposited within one (1) business day. We observed bank deposits made in a range of three (3) to 60 days after receipt.

Revenue was not being recorded into the EBS accounting system within two business days of receipt as recommended by Metro's Treasurer. Specifically, 34 of the 50 (68%) for the Offender Program and 49 of the 90 (54%) of the Out-of-County Summons items tested were not recorded in EBS within two (2) business days. We observed receipts of revenue recorded in EBS between three (3) to 60 days after receipt.

Criteria:

- *The COSO Internal Control- Integrated Framework* establishes a common definition of internal controls, standards and criteria by which organizations can assess their internal control systems. Depositing cash receipts in a timely manner is critical in ensuring an organization has established and designed a strong internal control framework. Depositing cash receipts in a timely manner enhances the control activities components of a strong internal control framework.
- *Metro's General Government Treasury Policy #9* states that cash receipts should be deposited within one (1) business day of receipt. Additionally, all cash receipts should be recorded into the EBS accounting system within two (2) business day of receipts.

Risk:

Deposits not made in a timely manner increase the risk of potential theft and loss. Potential earned interest is lost due to continuous delayed deposits.

Recommendation:

DCSO Management should ensure all remittances are deposited in the bank within one business day and recorded in the EBS accounting system within two (2) business days.

D – Improve Accountability for Custodial Transfer of Revenue

Internal controls over the transferring of revenue receipts between the various detention centers, offender programs and the DCSO Finance Office could be enhanced. DCSO staff does not have a process in place to verify and document revenue amounts being transferred from the various detention centers and offender programs are the revenue amounts actually received by the DCSO Finance Office.

Revenue received from the detention centers and various offender programs are transported to the DCSO Finance Office to be deposited and recorded into the accounting system. However, at the time the transfer takes place, the employee receiving the receipts is not counting, verifying and documenting that the amount of receipts on the supporting documentation agrees to the amount actually received. Also, the OIA noted that 37 of the 58 items tested (63%) did not contain the initials of the parties involved in the transfer.

Criteria:

- *The COSO Internal Control - Integrated Framework* establishes a common definition of internal controls, standards and criteria by which organizations can assess their internal control systems. Having adequate controls over transferring of custody of revenue receipts is critical in ensuring an organization has established and designed a strong internal control framework.
- *Internal Control and Compliance Manual for Tennessee Municipalities (Title 3, Chapter 1)* recommended best practice states that, “anytime custody of money changes from one employee to another, the money should be counted by both employees, a receipt should be issued to the recipient of the funds, and both employees should sign the document indicating concurrence with the amount transferred.”

Risk:

By not having controls in place verifying and documenting the correct amounts of revenue receipts transferred, the risk of theft and/or loss is enhanced while employee accountability is diminished.

Recommendation:

DCSO Management should develop and implement procedures that will ensure accountability for the custody transfer of revenue receipts.

GENERAL AUDIT INFORMATION

STATEMENT OF COMPLIANCE WITH GAGAS

We conducted this performance audit from November 2008 through March 2009 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 observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

SCOPE AND METHODOLOGY

The audited period for financial balances and transactions was the period July 1, 2006 through October 31, 2008. In addition, processes in place during the time of the audit were examined.

The methodology employed throughout this audit was one of objectively reviewing various forms of documentation, including written policies and procedures, financial information and various forms of data, reports and information maintained by the DCSO. Management, administrative and operational personnel, as well as personnel from other Metro departments and other stakeholders were interviewed, and various aspects of the DCSO were directly observed.

The Work Release and Inmate Trust Account activities are recorded into the ARAMARK Correctional Trust Fund Accounting System (ACTFAS). Consequently, our office placed reliance on the integrity of the data produced by this system (inmate listings, inmate transactions, account balances, etc.) The OIA gained an understanding of the inmate account cycle. The OIA also conducted test work on amounts deposited, charged, or withdrawn from the inmates account as recorded in ACTFAS. During this test work, our office traced ACTFAS transactions to supporting documentation noting that all amounts posted appeared to be reasonable and accurate.

Based on OIA's understanding of ACTFAS, our fieldwork testing, the preliminary information technology assessment and auditor judgment, the OIA concluded that risk associated with ACTFAS was at acceptably low levels and consequently decided not to perform testing on general or application controls. Our office does not believe that the absence of testing these controls had an effect on the results of the audit.

CRITERIA

In conducting this audit, DCSO operations and processes were compared to the following internal control best practices and standards:

- *Tennessee Code Annotated § 41-6-105, TCA § 41-21-216, TCA § 41-21-511, TCA § 41-21-512* establish regulations for custody of prisoners' personal belongings and funds, including earnings of inmates deposited in trust account.

- *American Correctional Association 4-ALDF-7D-11, 16 and 2-CO-1B-05-06* establish guidelines for receipt and deposit of all funds received from inmates.
- *Davidson County Sheriff's Office Policy 1-1.255 Inmate Accounts,*
- *The Committee of Sponsoring Organizations Internal Control- Integrated Framework*
- *Department of Finance, Treasury Policy #9*
- *Internal Control and Compliance Manual for Tennessee Municipalities*

STAFF ACKNOWLEDGEMENT

Carlos Holt, CIA, CFE, CGAP – Audit Manager
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APPENDIX A. MANAGEMENT RESPONSE

- Management's Responses Starts on Next Page -



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June 1, 2009

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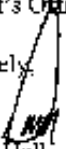
RE: Davidson County Sheriff's Office
Cash Handling Procedures

Dear Mr. Swann:

This letter acknowledges that the Davidson County Sheriff's Office received the report entitled *Audit of Davidson County Sheriff's Office Revenue and Collections*. We have reviewed the "Observations and Recommendations" section of the report and agree with all suggestions made. Procedures have been put in place and actions have been taken in response to recommendations A.2, B.1, C1, and D.1. The DCSSO will work with the Department of Finance to resolve the issues associated with recommendation A.1 and A.3.

I would like to personally express my appreciation for Internal Audit's assistance, cooperation, and professionalism used in this process. It is always our goal here at the Sheriff's Office to be as efficient and transparent as possible.

Sincerely,


Daron Hall
Sheriff

Accountability • Diversity • Integrity • Professionalism

**Audit of the Davidson County Sheriff's Office – Revenue and Collections
Management Response to Audit Recommendations – June 1, 2009**

Audit Recommendation	Response to Recommendation / Action Plan	Assigned Responsibility	Estimated Completion
<p>A.1 DCSO Management should eliminate or reconcile the unexplained \$362,942 difference that has been historically carried forward in the monthly reconciliation. If the amount cannot be reconciled, the funds should be recouped into the General Fund from the Work Release and Inmate Trust Account.</p>	<p>Agree. The DCSO concurs with this report item. This \$362K balance has been carried over from several different bank account changes dating back to the FY 2003. At one time it was thought that this money was part of unclaimed property. Later, it was determined that was not the case and the only other option is this money is associated with amounts that should have been charged to the inmate accounts for Room and Board, Processing Fees and Medical Co-Pays. Checks will be cut and deposited into the General Fund revenue accounts for these items.</p>	<p>Joint DCSO and Metro Finance</p>	<p>30 Days</p>
<p>A.2 DCSO Management should ensure reconciliations are performed within a reasonable period of time and always prior to the earliest time that the following month's reconciliation could be performed and that they include adequate supporting documentation.</p>	<p>Agree. The DCSO concurs with this report item; however there is not a standard that is used that states specifically when a Bank Reconciliation should be completed. The DCSO will commit that the monthly bank reconciliation for the Inmate Trust Account will be completed within 30 days from the date the monthly bank statements are received by the DCSO.</p>	<p>DCSO Finance</p>	<p>In Place</p>
<p>A.3 DCSO Management and Department of Finance should work together to restructure the Work Release and Inmate Trust Fund EBS journal entry to use balance sheet accounts rather than income statement accounts. Amounts received and disbursed should be applied to balance sheet <i>Account 102000 – Cash with Fiscal Agent</i> account and <i>Account 208301 – Funds Held in Trust, Sheriff Inmate/Work Release</i>.</p>	<p>Agree. The DCSO concurs with this report item. It has been an ongoing opinion of the DCSO that the entry for the Inmate Trust Bank account should include the appropriate balance sheet accounts as opposed to the current revenue and expense accounts that have been utilized over the past many years. With the direction of Division of Accounts these entries will be changed to include the Balance Sheet accounts.</p>	<p>Joint DCSO and Metro Finance</p>	<p>30 Days</p>
<p>B.1 DCSO Management should ensure all safes are properly bolted or otherwise secured.</p>	<p>Agree. The DCSO concurs with this report item. All safes and lock boxes that are located throughout the DCSO facilities have been properly secured.</p>	<p>DCSO Finance</p>	<p>In Place</p>

**Audit of the Davidson County Sheriff's Office – Revenue and Collections
Management Response to Audit Recommendations – June 1, 2009**

Audit Recommendation	Response to Recommendation / Action Plan	Assigned Responsibility	Estimated Completion
<p>C.1 DCSO Management should ensure all remittances are deposited in the bank within one business day and recorded in the EBS accounting system within two business days.</p>	<p>Agree. The DCSO concurs with this report item. All safes and lock The DCSO concurs with this report item. There was a point in time when daily deposits got backed up for several days. Even though these moneys were secured in a safe, it is still important to make sure that all funds are deposited and posted within the times outlined.</p>	<p>DCSO Finance</p>	<p>In Place</p>
<p>D.1 DCSO Management should develop and implement procedures that will ensure accountability for the custody transfer of revenue receipts. The Internal Control Compliance manual for Tennessee Municipalities, Title 3, Chapter 1 and the COSO Internal Controls Framework could be used as a resource to help improve controls for this process.</p>	<p>Agree. Currently, a procedure has been put in place that requires signatures from the transporting party, as well as the receiving party, for confirmation that the money was delivered appropriately.</p>	<p>DCSO Finance</p>	<p>In Place</p>