

August 19, 2003

Sheriff Daron Hall
Davidson County Sheriff
506 2nd Avenue North
Nashville, TN 37201

Report of Internal Audit Section

Dear Sheriff Hall:

We have recently completed a review of the Davidson County Sheriff's Office (DCSO) for the period January 1, 2001 through August 30, 2002. This review was conducted at your request in conjunction with you assuming the duties of this elected office.

Background

The Office of the Davidson County Sheriff is responsible for the housing and transportation of inmates in the Davidson County Justice System. The current Sheriff's Office 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 for and distributing inmate funds to outside agencies, individuals, and to the inmates themselves. The Sheriff is an elected official, and the salaries of the Sheriff and other employees are established by court order, as required by Tennessee law. All of the salaries and other related expenditures related to the Sheriff's Office are budgeted and paid from Metro's General Fund. There were approximately 637 budgeted positions for fiscal year 2003. Other activities are accounted for solely by the Davidson County Sheriff's Office and are reported as a fiduciary fund in Metro's Comprehensive Annual Financial Report. At June 30, 2002, the cash balance in that fund was \$312,758, and cash receipts for the 2002 fiscal year were \$2,021,082.

Financial Data

Following is a summary of General Fund financial activity budgeted for fiscal year 2003 and the actual results for fiscal year 2002.

	<u>2003 Budget</u>	<u>2002 Actual</u>
Revenues	\$19,290,221	\$19,855,764
Expenditures	49,271,939	47,926,020

Objectives, Scope and Methodology

The overall objectives for this review included: (1) Review DCSO business processes, (2) Evaluate key operating and financial controls, (3) Identify weakness and strengths in the processes and control systems, and (4) Develop findings and recommendations for any areas where performance could be improved.

For the purpose of this report, we have classified the processes tested into the following categories:

- Revenue, cash receipts, and inmate trust account
- Purchasing, expenditures, and cash disbursements
- Personnel and payroll
- Petty cash
- Fixed assets
- SPORTS Group

The SPORTS Group (Sheriff's Project for Organized Recreation & Team Sports) is a nonprofit organization incorporated in 2001 with a stated mission of promoting athletic, social and recreational activities at the DCSO. Fundraising included parking fees collected at a DCSO parking lot during Titans Football games. The parking lot lease agreement between the SPORTS Group and the DCSO included a requirement that records subject to audit by Metro be maintained for three years.

The scope of the work included the DCSO's primary operations and largely focused on January 1, 2001 through August 31, 2002 financial results and transactions and on the policies, procedures and operations in place during that time. Certain other audit work and analyses required the consideration of financial results, performance and operations outside of those time periods.

The methodology employed throughout this review was one of objectively reviewing various forms of documentation, including written policies and procedures, financial information, and various other forms of data, reports and information maintained by the DCSO and other Metro Departments. Various aspects of DCSO operations were observed, and DCSO personnel and other Metro employees and stakeholders were interviewed.

Findings and Recommendations

1. The receipt of revenue and payment of expenditures for eligible inmates was not being recorded accurately, and processes did not ensure sufficient control.

We reviewed the revenue recognition process from the State of Tennessee Department of Corrections (TDOC) and payments to Corrections Corporation of America (CCA). In addition, we reviewed the inmate medical payment process. Based on our review we noted the following weaknesses:

- The TDOC inmate tracking system (TOMIS) system contained several inmates that were no longer in the DCSO/CCA inmate tracking system (JMS). In addition, procedural issues between DCSO divisions regarding responsibility for updating inmate information prevented timely corrections to the TOMIS and JMS systems.
- Judgment orders received by DCSO Finance were not entered timely, causing the inmate roster maintained at DCSO Finance to be incomplete.
- It was unclear which date should have been used to begin accruing inmate days from the judgment order. The State auditors indicated that the plea or conviction date could be used, while TDOC stated that the sentence-imposed date should be used. Currently, the sentence-imposed date is being used. If the plea or conviction date could be used, this could result in the DCSO receiving additional revenue. It also came to our attention that the DCSO was not billing the TDOC for "Detainee Days". Billing the TDOC from the plea or conviction date and for the "Detainee Days" could result in increases in revenue exceeding \$250,000.
- The inmate reconciliation process of TOMIS to JMS did not have detailed procedures documented.

Recommendations

The DCSO should strengthen controls to include the following:

- Review the CCA contract with the contract monitor and with the Metro Legal Department to verify which payments for inmate related expenses are allowable.
- Improve the integrity of the JMS and TOMIS systems by improving the process for updating inmate movement. We recommend the division making the changes in JMS also make the changes in TOMIS to improve accuracy and reduce reconciliation issues.
- Work with Metro Legal to verify which date on the judgment order should be used for accruing inmate days, and to determine if the DCSO can bill the TDOC for “Detainee Days” to ensure DCSO is collecting all revenues due.
- Create detailed written procedures for the entire inmate reconciliation process.

The new DCSO management team should address each finding individually and address the related internal control and procedural weaknesses with the appropriate staff.

2. Internal accounting processes and controls should be strengthened over the inmate trust account.

We reviewed the inmate trust account functions at four DCSO locations. In addition, we reviewed bank deposits and the monthly bank reconciliations. Based on our review we noted the following weaknesses:

- The four different locations are receiving money from inmates or their families and do not have formal procedures for receipting, remitting, and reconciling amounts received. We noted a lack of preventative and detective controls at the Correctional Work Center (CWC) and the Criminal Justice Center (CJC), creating an environment susceptible to misuse and/or a misappropriation of assets. For example, voided checks (approximately 100 to 150) at the CJC were not forwarded to the DCSO Finance department for inclusion in the monthly bank reconciliation process.
- Employees at the CJC, CWC, and Hill Detention Center (HDC) can make entries and issue checks from the ARAMARK system (DCSO inmate accounting software). We identified over thirty employees and several supervisors who have been given access to the system without the proper background and training. By having multiple individuals making entries into the ARAMARK system, the data integrity is greatly reduced, and financial information cannot be relied upon. We noted ARAMARK reports that have adjustment entries made by DCSO employees that misstated the inmate trust balance.

Recommendations

The DCSO should implement basic internal accounting controls to include the following:

- Create operating procedures for all positions that account for or handle cash payments or cash receipts to provide audit trails and proper accountability. For those locations that develop their own procedures, have management at the DCSO Finance department review and approve them before implementation.
- Improvements should be made to the ARAMARK check issuing procedures and to general ledger processing. The check writing and data entry function should be as centralized as possible to improve the controls and integrity of financial information in the ARAMARK system.

The new DCSO management team should address the above findings individually and address the related internal control weaknesses associated with the appropriate staff.

3. The inmate trust account bank reconciliation process was not adequate.

We reviewed the inmate trust bank reconciliation process and the actual reconciliations for June 30, 2001. Based on our review we noted the following weaknesses:

- The most current bank reconciliation we could identify was for July 31, 2002.
- A timing difference of approximately \$24,000 was included in the July 2002 inmate trust bank reconciliation that could not be explained.
- A procedure for tracking checks is not in place to detect missing checks and to identify when or if checks written clear the bank.
- Numbers included in the Change in Cash Statement prepared by DCSO Finance could not be traced to supporting documentation (cash disbursements to inmates' families and cash disbursements to Metro Courts).
- At June 30, 2001, approximately 3,626 checks dating back to 1997 for \$24,759 were outstanding. These outstanding checks were cleared from the account during the second quarter of 2002.
- We discovered inmate work release payments totaling \$1,570 that were returned for insufficient funds but that were not voided in the system. The inmate trust account was charged a return check fee for each check. From our review, the individuals were no longer inmates, and the transactions had not been voided in the ARAMARK system, misstating the inmate trust account balance.

- Before March 2002, two bank accounts were used to account for inmate payments. One account, with Bank of America, was closed in May 2002 and the remaining balance was transferred to the SunTrust bank account. The bank's reconciliation from August 2001 through March 2002 for the Bank of America account could not be located at the DCSO Finance department and were obtained from Metro Division of Accounts.
- Amounts due to inactive inmates (not in the DCSO system) still had funds totaling approximately \$80,000 included in the inmate trust account. Per Tennessee Department of Treasury Division of Unclaimed Property Division regulations governing the disposition of unclaimed property, remittance of all unclaimed property is to be made to the state.

Recommendations

The DCSO should implement basic internal accounting controls to include the following:

- Complete the remaining inmate trust bank reconciliations.
- Identify and resolve the differences between the bank balance and ARAMARK.
- Enhance the reconciliation process to track checks and improve ARAMARK financial data.
- Research and resolve NSF checks returned.
- Create written operational procedures for all reconciliation processes.
- Transfer any unclaimed funds to the State of Tennessee.

The new DCSO management team should address the above findings individually and address the internal control weaknesses associated with the appropriate staff.

4. The ARAMARK system had several outstanding problems.

While reviewing the inmate trust account and bank reconciliations, we noted the following problems with the ARAMARK system:

- Due to a lack of system user training, ARAMARK reports do not fairly represent the financial position for the inmate balances due to DCSO and due from inmates. For example, depending on how the user enters the time and date for the generation of reports, current transactions may be excluded.

- Inmates in the ARAMARK system who are no longer living or for whom DCSO has no way of retrieving the funds owed are still included in amounts due to DCSO, misstating the balances. In addition, if amounts owed to DCSO could be identified and collected, a significant increase in revenue could be recognized. According to ARAMARK reports, approximately \$300,000 is due to DCSO from both active (in the jail system) and former (not in the jail system) inmates.
- The ARAMARK system allows the user to input the check number, creating an environment susceptible to manipulation of funds.
- Because ARAMARK cannot identify individuals returning to the DCSO jail system, monies due DCSO from previous sentences cannot be tracked and collected.

Recommendations

The DCSO should implement basic internal accounting controls to include the following:

- Identify and develop the appropriate process to generate accurate ARAMARK reports and train all users.
- Determine which inmate account balances can be collected, and delete those that cannot. All deleted transactions should be approved and tracked for historical and financial control purposes.
- Investigate whether the ARAMARK system can interface with the JMS system to identify when former inmates with amounts due to DCSO return to the system.

The new DCSO management team should address the above findings individually and address the internal control weaknesses associated with the appropriate staff. Additionally, DCSO should work with the Business Solutions group in the Finance Department to address inmate accounting system needs.

5. The contract with Tennessee Business Enterprises (TBE) for commissary items to inmates was not being monitored and managed for compliance.

We reviewed the contract with TBE, contract number 12961, and noted the following weaknesses:

- The contract had a provision for a full time employee to be provided to the DCSO at no charge to perform data entry and report writing. From our review, limited time was spent at the DCSO by the staff member provided by TBE, violating the scope of services outlined in the contract. This resulted in DCSO performing the duties in-house at an estimated cost of \$40,000 per year.

- Commissions were not paid to the DCSO for the commissary items sold. Item 11 in the contract with TBE states that commissions can be paid to Metro if both parties agree. Currently, commissions or fees are not being collected. If a 2% fee were applied to commissary sales, DCSO would earn an estimated \$20,000 in revenue per year.

Recommendation

Ensure existing contract terms are monitored for compliance. In negotiating a new commissary contract, include a provision for DCSO to receive a fee from the commissary vendor.

6. Internal controls over expenditures need to be strengthened.

We reviewed 35 of the 1,968 procurement card transactions for fiscal year 2001, 64 of the 3,938 delegated purchase transactions for calendar year 2001, and selected petty cash transactions as of December 2002 for compliance with Metro purchasing regulations and general controls. Based on our review we noted the following weaknesses:

- Ten delegated purchases for \$13,253 were made without DCSO Finance management approval.
- Petty cash purchase document requirements were not consistent: some individuals were required to have a purchase requisition and others were not.
- None of the three travel related expenditures followed Metro travel policies for expenditures related to meals and lodging.

Recommendations

We recommend individuals making delegated purchases follow central Metro and DCSO purchasing policies. In addition, treatment of all petty cash purchases should be consistent to maintain an adequate control environment. Compliance with travel regulations should be required for all future travel.

7. Internal controls over the payroll function need to be improved.

We reviewed the payroll function for the calendar year 2001. Along with reviewing the payroll function, we tested the time and attendance records for 27 employees and the related amounts entered into FASTnet for accuracy and completeness. In addition, we reviewed the adherence to Civil Service regulations. Based on our review we noted the following weaknesses:

- Seven employees' vacation and sick time amounts taken per departmental records did not agree to what was entered into FASTnet by DCSO staff.
- Three employees had overtime amounts per departmental records that did not agree to what was entered into FASTnet by DCSO staff. Two had overtime amounts from departmental records that were higher than FASTnet by 4 and 25 hours. One person had overtime amounts from departmental records that were lower than FASTnet by 100 hours.
- DCSO does not maintain outside employment approval forms for employees, even those required to follow Civil Service rules.

Recommendations

We recommend the discrepancies between departmental records and FASTnet be researched and resolved. In addition, all Civil Service employees should be required to obtain approval for all outside employment and to provide the appropriate documentation in the personnel files.

8. Fixed assets on departmental records are not properly accounted for.

We physically identified 22 of the 144 fixed assets with a book value greater than \$5,000 per the Metro fixed asset records (FASTnet). In addition, we tried to determine whether nine assets identified at DCSO that appeared to have an original cost of \$5,000 or more were recorded on Metro's fixed asset records. Based on our review we noted the following exceptions and weaknesses:

- Ten assets with a book value of \$153,820 included in Metro fixed asset records could not be found at the stated location at DCSO.
- Four items with a book value of approximately \$45,000 located in the field could not be traced back to Metro fixed asset records.
- Standard procedures for the transfer and disposal of assets were not in place.

Recommendations

We recommend the exceptions to the Metro fixed asset records be corrected for the items noted and that any problems with the ownership be resolved. In addition, we recommend the creation of standard operating procedures for the transfer and disposal of assets.

9. Certain purchases by the SPORTS Group did not appear to comply with the stated by-laws of the organization.

We reviewed transactions for calendar year 2001 for compliance with by-laws and contractual terms. Based on our review we noted the following purchases that did not appear to comply with Article I of the organization's by-laws to "promote fellowship through athletic events and departmental social and recreational activities":

- Two separate gift purchases for \$800 (golf clubs) and \$200 (golf bag) were made in the last quarter of 2002.
- Flowers were purchased for a DCSO staff member at \$50.
- Two checks for \$339 were issued to a DCSO employee to assist with personal medical expenses.

Recommendations

As of the first quarter of 2003, the SPORTS Group is no longer operated by DCSO staff, and the lease has expired. We recommend that the DCSO forward this report to the SPORTS Group board so they can determine whether the purchases listed above were appropriate.

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During the course of our fieldwork, DCSO management and staff have taken a proactive stance in finding solutions and implementing corrections to the issues identified above. Sheriff Hall is in agreement with these findings and recommendations and is working with Internal Audit to develop a timeline and detailed plan to implement the recommendations in this report. We greatly appreciate the cooperation and help provided by all DCSO staff.

August 19, 2003
Sheriff Hall
Page 11

This report is intended for the information of the management of the Metropolitan Government of Nashville and Davidson County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

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