

# **AUDITOR'S REPORT**

## **SHERIFF JAIL COMMISSARY FY 2015 FOR THE 12 MONTH PERIOD ENDED FEBRUARY 28, 2015**



**July 22, 2016**

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**BARBARA J. SCHOTT, C.P.A.**  
**HARRIS COUNTY AUDITOR**

July 22, 2016

Sheriff Ron Hickman  
Harris County Sheriff's Office  
1200 Baker  
Houston, TX 77002

RE: Sheriff's Office Jail Commissary for the 12 month period ending February 28, 2015

Although you were not the office holder during the full period of our procedures, we are addressing this letter to you as the current office holder.

The Audit Services Department performed procedures relative to the Sheriff's Office Jail Commissary (Commissary). The objective of the engagement was to examine the Commissary accounts pursuant to Texas Local Government Code (LGC) §351.0415(d), evaluate, on a test basis, compliance with the provisions established by LGC §351.0415(b)(3) and 351.0415(c), and report the results to the Harris County Commissioners Court and the Texas Commission on Jail Standards in accordance with Texas Government Code (TGC) §511.016(a).

We performed procedures to determine whether:

- Revenue and expenditures recorded in the Commissary System (QuickBooks, Canteen Manager System) and the County's Financial System (IFAS), were reasonable compared to the two prior years.
- Security of assigned user access rights was adequate and appropriate.
- Selected bank reconciliations and related cash balances were accurately and timely recorded in the Commissary System and IFAS.
- Selected disbursements were in compliance with statute and were properly authorized, supported, approved and accurately recorded in the Commissary System and IFAS, and purchases were from approved vendors.
- Sales and sales tax payable were accurately recorded in the Commissary System and IFAS and the correct amount was deducted from the respective inmates' trust accounts.
- Cost of sales and the value of closing inventory were accurately recorded in the Commissary System and IFAS.
- Selected adjusting entries were appropriate and properly approved.
- New bids are accepted to renew Commissary vendors every five years.
- Previously reported recommendations were implemented.

Sheriff Ron Hickman  
Harris County Sheriff's Office

The engagement process included providing you with a combined engagement and scope letter and conducting an entrance and exit conference with your personnel. The purpose of the letter and conferences was to explain the process, identify areas of concern, describe the procedures to be performed, discuss issues identified during the engagement, and solicit suggestions for resolving the issues. A draft report was provided to you and your personnel for review.

The work performed required our staff to exercise judgment in completing the scope objectives. As the procedures were not a detailed inspection of all transactions, there is a risk that error or fraud was not detected during this engagement. The official, therefore, retains the responsibility for the accuracy and completeness of their financial records and ensuring sufficient controls are in place to detect and prevent fraud.

The enclosed Auditor's Report presents the significant issues identified during our procedures, recommendations developed in conjunction with your staff, and any actions you have taken to implement the recommendations. Less significant issues and recommendations have been verbally communicated to your staff.

We appreciate the time and attention provided by you and your staff during this engagement.

Sincerely,



Barbara J. Schott  
County Auditor

cc: District Judges  
County Judge Ed Emmett  
Commissioners:  
R. Jack Cagle  
Jack Morman  
Steve Radack  
Gene Locke  
Devon Anderson  
Vince Ryan  
William J. Jackson

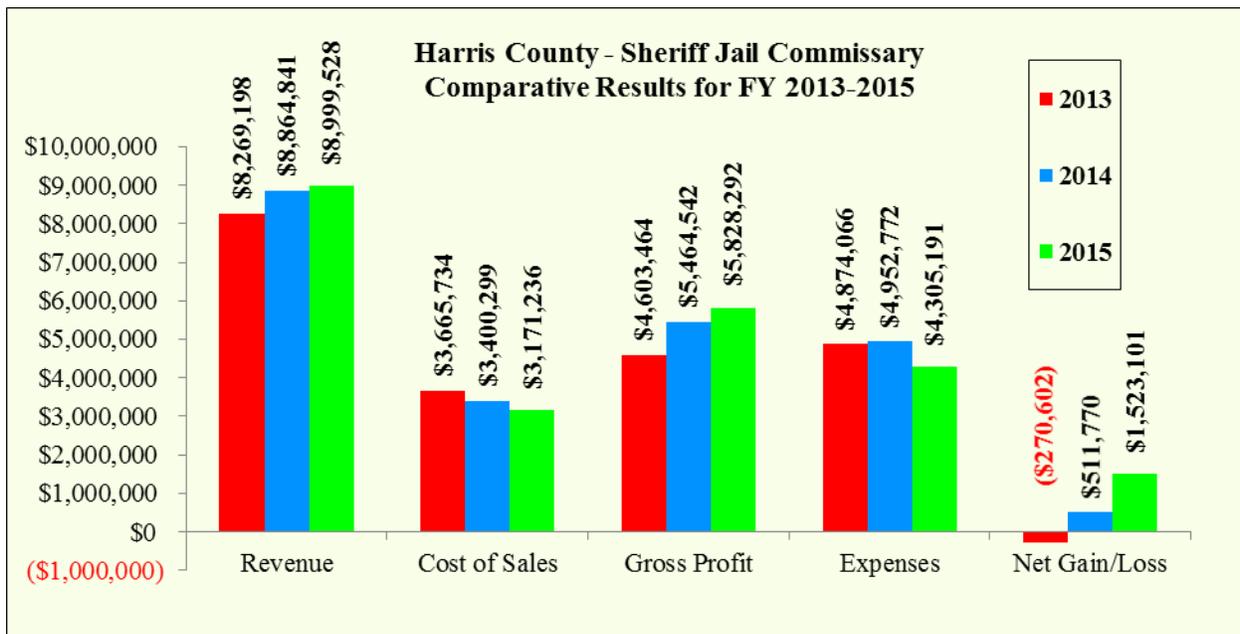
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## OVERVIEW

The Sheriff's Office operates a commissary service at three downtown jail locations. The Commissary sells food products, hygiene supplies, clothing, over the counter drugs, and writing materials that are not provided to inmates by the County. Individual Inmate Trust Accounts (Trust Accounts) are established with funds in the inmates' possession at the beginning of incarceration and credited with deposits made thereafter. Inmates may place orders for Commissary items, subject to available funds in their Trust Accounts. Commissary purchases are deducted from the Trust Accounts. Sheriff's Office personnel assigned to the Commissary supervise and process inmate orders, deliver the items to the inmates, and maintain the Commissary inventory. Commissary proceeds must be used for the benefit of the inmates or to fund, staff, and equip Commissary operations in accordance with LGC §351.0415(c), *Commissary Operation by Sheriff or Private Vendor*.

*The following chart presents comparative results of the Sheriff Jail Commissary operation for the fiscal years ended February 2013, 2014, and 2015.*

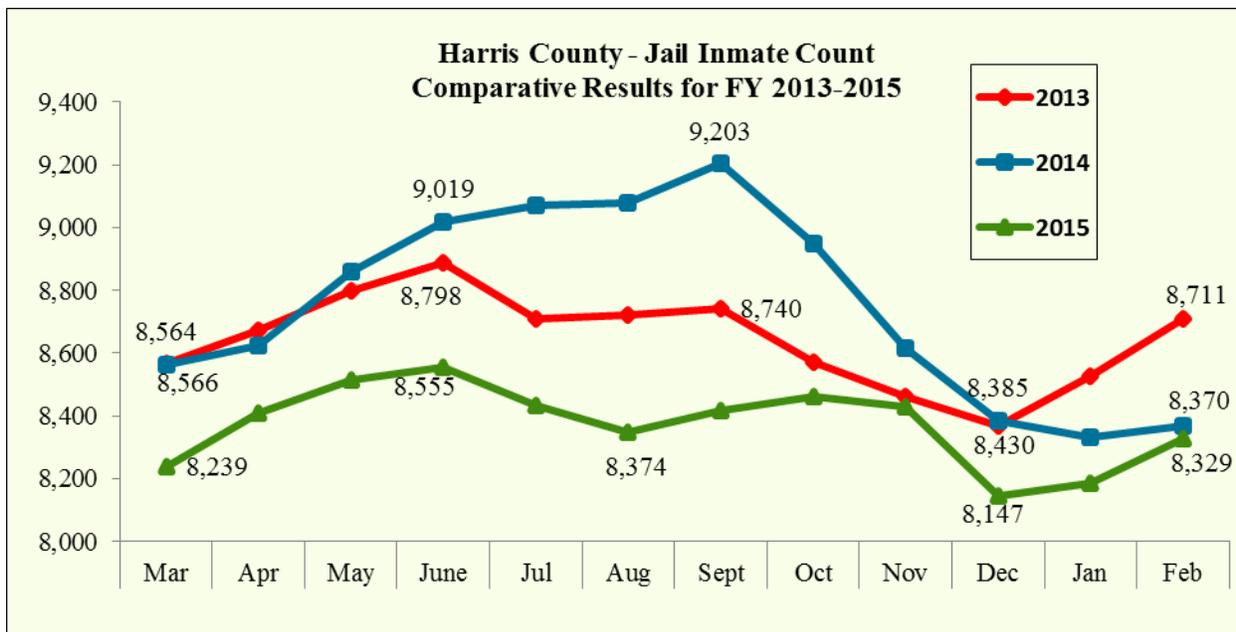


The Commissary uses the Canteen Manager System (Canteen System), supported by Trinity Services Group. The Canteen System records Commissary sales transactions (inmate orders) through the use of Scantron sheets, maintains Commissary inventory, and generates monthly sales and sales tax reports. Although the Canteen System can maintain financial related information, the Sheriff's Business Office (Business Office) uses QuickBooks to record purchase orders, process accounts payable, and generate financial information. The Business Office processes Commissary invoices for payment, maintains the accounting records, and remits state and local sales taxes due on Commissary sales. Details of transactions are submitted to the Auditor's Office - Financial Accounting Department (Financial Accounting) and are recorded in IFAS. Certain financial transactions such as depreciation, investment earnings, and bank interest

are only recorded in IFAS. Generally, the Sheriff's Office uses a structured bid solicitation process for selecting Commissary inventory item vendors.

A Memorandum of Understanding, approved by the Commissioners Court on 9/11/12, permits Commissary employee payroll/benefits to be funded from Enterprise Funds (Fund 5070). The Commissary is staffed with County and contracted personnel. Fund 5070 is composed of a Sheriff required deposit for two and one half (2 ½) months of Commissary salaries/benefits and the amount of any other permissible non-labor expenditures anticipated. The advance payment to the County ensures that Commissary employees will not experience payroll and/or benefits delays. Fund 5070 is reimbursed by the Commissary Fund upon being invoiced by the Auditor's Office - Accounts Receivable Department.

*The following chart presents comparative results of the Sheriff Jail Inmate Count (population) served by the Commissary operation for the fiscal years ended February 2013, 2014, and 2015.*



On December 22, 2011, the Attorney General of Texas issued Opinion No. GA-0901. The summary information provided states, "A county sheriff controls the county jail commissary fund, and as a result, the sheriff must make the initial determination, subject to judicial review, as to whether proceeds from the fund may be used for particular purposes. The proceeds may be used only to fulfill one of the five purposes described in section 352.0415(c) of the Local Government Code."

## RESULTS

Based upon the procedures performed as presented in our scope letter and in accordance with LGC §351.0415(b)(3) and (d), *Commissary Operation by Sheriff or Private Vendor*, and TGC §511.016, *Audits*, no matters came to our attention that would cause us to believe that the Commissary accounts were not maintained in compliance with the statutes.

In addition, it appears that Commissary proceeds were used for the benefit of the inmates and to fund, staff, and equip Commissary operations in accordance with LGC §351.0415(c), *Commissary Operation by Sheriff or Private Vendor*.

However, our procedures identified the following opportunities for improving processes:

- Perform testing of backup processes and sequence of events necessary for resumption of Commissary operations in the event of a system failure and/or disaster.
- Updating the Commissary Price List to reflect charged prices and items available for purchase.
- Maintaining ticket/invoice documents for transaction transparency and accountability.
- Reconciliation of the County’s Comprehensive Annual Financial Report for the Commissary’s Cost of Goods Sold to the adjusted QuickBooks Cost of Goods Sold.

The status of the previously identified recommendations presented in the prior Sheriff’s Jail Commissary FY 2014 report issued October 16, 2015 is identified below. Four issues identified in that report are no longer applicable and are documented as “N/A”, as the Jail Commissary function was outsourced and now operates with a contractor provided system.

Prior Engagement Recommendations	Implementation Status
Business Office Management should implement a procedure to reconcile the balance from expenditures on the Expense by Vendor and Cost of Goods Sold reports to IFAS on a quarterly basis and should reconcile the Commissary’s year-to-date reports (check register) to IFAS. Identified differences should be resolved timely to reflect accurate and complete recording of expenditures and costs.	Incomplete
Business Office Management should develop and implement written procedures to ensure checks voided in QuickBooks are timely voided in IFAS and include maintaining a log of voided checks for periodic review to ensure they were recorded in IFAS.	Complete
Commissary Management should reconcile the current Commissary Price List with the Canteen System prices. In addition, Commissary Management should update the Commissary Price List each time the Canteen System has price changes. Furthermore, Commissary Management should maintain evidence of approved Price Lists.	Incomplete

Prior Engagement Recommendations	Implementation Status
Commissary Management should verify that each disbursement is supported by a matching invoice, receiving document, and purchase order prior to releasing payment.	Complete
Commissary Management should implement a process that permits for timely inventory counts and reconciliation of those counts to the Canteen System to produce an accurate final physical inventory report.	Complete
Commissary Management should review Commissary items to be sold with the Texas Comptroller’s guide “Grocery and Convenience Stores: Taxable and Nontaxable Sales” and recent Senate Bill 1151 to qualify taxable items. Commissary Management should also review their records to determine what the understated tax obligation is and pay the state accordingly. In addition, the Commissary Price List should be revised to reflect the correct taxability for items being sold.	Complete
Business Office Management should strengthen their reviews of user access to detect and correct missed deactivation of terminated, transferred or reassigned employees. Employee names and identifiers in the Canteen System should reflect the same names and identifiers in IFAS.	The Canteen System was removed from the Jail Commissary with the outsourcing of the operation to Aramark Correctional Services on March 1, 2016. Aramark implemented “CORE System” as their control system. These issues will be re-evaluated in the FY 2017 Sheriff Jail Commissary Audit.
Commissary and Business Office Management should follow Policy 4.18, <i>Inmate Trust Fund Software Administration</i> , for maintenance of security levels and assignments, completing applicable sections on the user security access request form to document system access approval, with review and approval by a Supervisor or Manager, prior to providing system access.	
Commissary and Business Office Management should formalize and document periodic monitoring of the QuickBooks and Canteen System audit logs. Documentation should identify the employee(s) monitored, the personnel responsible for monitoring the audit logs, and the transactions monitored. Improper activity exposed should be effectively resolved in accordance with proper approved information technology security.	
Business Office Management should edit the user accounts to “No Access” for employee terminations or transfers, without deleting user names from QuickBooks. In addition, they should monitor for “Unknown User” by running and reviewing the QuickBooks Audit Trail report after terminations and transfers of employees with access removed.	

These and other matters are discussed in more detail in the following Issues and Recommendations section of this report.

## ISSUES AND RECOMMENDATIONS

### **Information Technology Disaster Recovery/Business Continuity Processes**

#### **Background**

An Information Technology (IT) Disaster Recovery/Business Continuity Plan enables the recovery and continuation of vital technology infrastructure and systems following a natural or human induced disaster. Periodic testing of the plan components is vital to ensuring the success of an IT Disaster Recovery/Business Continuity Operation.

The Commissary and Business Office Management use two key IT components to operate the Commissary, Quickbooks and the Canteen System.

#### **Issue**

There was no supporting documentation to indicate that restoration testing of backup data for QuickBooks or the Canteen System was performed.

Without a documented IT Disaster Recovery/Business Continuity Plan and testing of backups, Sheriff's Office Management may not be able to timely recover the Commissary operation following disruptive events, including system failures and natural or human induced disasters.

#### **Recommendation**

Commissary and Business Office Management should perform testing of the backup processes and sequence of events necessary for resumption of Commissary operations in the event of a system failure and/or disaster.

#### **Management Response**

Beginning Sept 1, 2016 HCSO will perform a test of the backup process for both Quickbooks and the new CORE Banking system. This test will be performed once every six months and will be reviewed by the HCSO Chief Financial Officer.

## ISSUES AND RECOMMENDATIONS

### Commissary Price List

#### Background

The Sheriff's Office operates a Jail Commissary to facilitate the inmates' purchasing of food, snacks, beverages, hygiene products, and other basic personal items. Pursuant to Commissary Post Orders Policy # CJC-720, "Each inmate shall be afforded an opportunity, one time each week to purchase commissary."

The inmates are provided a Commissary Price List, which identifies the items available for purchase and the price for each item. Inmates select their items and communicate their choices to the Commissary for scheduled processing. The inmates use personal fund accounts within the jail operation to finance the purchase transactions.

#### Issue

Commissary item sales price changes and their effective dates are not formally approved or adequately documented. As such, in 24 of 236 (10%) commissary price list items, we could not determine whether inmates were timely and consistently charged approved prices.

Price differences between the Commissary Price List and the system used to process item sales may result in inaccurate charges and/or potential financial loss.

#### Recommendations

Commissary Management should reconcile the current Commissary Price List with the system used to process transactions and provide an updated/reissued Commissary Price List that reflects the correct pricing and items available for purchase.

Commissary Management should, also, update and reissue the Commissary Price List each time the system used to process transactions has price changes, item additions, and/or item deletions.

#### Management Response

As of March 1, 2016 the outsourced vendor (Aramark) has assumed full responsibility for maintaining and updating the Commissary Price List. Aramark is required by contract to obtain prior approval from HCSO before implementing any price change, and HCSO will perform a quarterly review of the price list being provided to inmates, to ensure no unauthorized changes have been made.

## ISSUES AND RECOMMENDATIONS

### Transaction Support Documentation

#### Background

The Commissary uses Scantron forms for its ordering process. The inmates make their purchase request using the Scantron forms, which are entered into the Canteen System. Inmate order pick tickets/invoices are printed from the Scantron information, the orders are bagged, and then delivered for inmate consumption. Delivery personnel initial the pick ticket/invoice and inmates sign and thumb-print the same pick ticket/invoice, which becomes a legal transaction document.

The Commissary maintains the pick ticket/invoice documents to evidence the transactions.

#### Issue

Commissary Management was unable to locate and provide 2 of 30 (6%) pick ticket/invoices requested for verification. The pick tickets/invoices were for \$132 and \$139 respectively.

Missing and/or disorganized ticket/invoices prevent operational transparency and the ability to account for the related sales transactions, which may result in misappropriation of funds.

#### Recommendation

Commissary Management should maintain effective organization of each inmate's sales transaction ticket/invoice for operational transparency and accountability.

#### Management Response

As of March 1, 2016 the outsourced vendor (Aramark) is responsible for all tracking of inmate sales and HCSO is no longer involved in this activity. Aramark invoices HCSO for their sales to inmates and these invoices are reconciled to the CORE Banking system.

## **ISSUES AND RECOMMENDATIONS**

### **Cost of Goods Sold**

#### **Background**

Commissary Fund expenditures, including cost of goods sold, are classified via General Ledger account coding by the Business Office in QuickBooks. They are submitted as checks and are submitted to Financial Accounting via a QuickBooks report for inclusion in IFAS. At fiscal year-end, a QuickBooks report of unpaid invoices is also submitted to Financial Accounting for recording accrued expenses.

#### **Issue**

Business Office Management did not have sufficient controls in place to help ensure expenditures coded to the Cost of Goods Sold on the Expenses by Vendor Report agree to the amounts recorded in IFAS. The County's Comprehensive Annual Financial Report for the Commissary's Cost of Goods Sold was \$5,848 higher than the adjusted QuickBooks Cost of Goods Sold.

Failure to accurately record Commissary transactions may result in financial misstatements.

#### **Recommendation**

Business Office Management should implement a review procedure that helps ensure reconciliation of Commissary financial reports to IFAS on a quarterly basis and resolves any reconciling items timely for accurate reporting in IFAS.

#### **Management Response**

As of March 1, 2016 HCSO is no longer purchasing goods for resale, and therefore has no Cost of Goods Sold expenses to be recorded in IFAS. The outsourced vendor (Aramark) for Commissary operations is now responsible for all Inventory and Cost of Goods Sold. As of June 2016 a quarterly review and reconciliation with IFAS is being performed by HCSO staff and reviewed by the HCSO Chief Financial Officer for all other expense types that are still being recorded in IFAS.

## RISK ASSESSMENT AND SUMMARY OF RECOMMENDATIONS

The risk matrix below presents the assessed level of risk or exposure identified during our procedures. Inherent risk relates to factors that because of their nature cannot be controlled or mitigated by management. Inherent risk includes factors such as legislative changes, number and dollar amount of transactions processed, and/or complex nature of transactions. Control risks relate to factors that can be influenced or controlled by management. Controls such as policies and procedures, electronic or manual approvals, system security access, and separation of job responsibilities may be instituted by management in order to mitigate control risk. Control risk is assessed during the planning phase in order to establish the nature, timing, and extent of testing and at the conclusion of the engagement in order to incorporate actions taken to implement our recommendations. The overall risk considers a combination of inherent and control risks.

<b>Inherent Risk:</b>	<b>Control Risk:</b>		<b>Overall Risk:</b>
<input type="checkbox"/> High <input checked="" type="checkbox"/> Moderate <input type="checkbox"/> Low	<b>Prior to Procedures</b>	<b>After Procedures</b>	<input type="checkbox"/> High <input checked="" type="checkbox"/> Moderate <input type="checkbox"/> Low
	<b>Needs Improvement</b>	<b>Needs Improvement</b>	
<b>Type of Procedures:</b> Compliance Audit			
<b>Purpose:</b> To examine the Commissary accounts pursuant to Code (LGC) §351.0415(d), evaluate, on a test basis, compliance with the provisions established by LGC §351.0415(b)(3) and 351.0415(c), and report the results to the Harris County Commissioners Court and the Texas Commission on Jail Standards in accordance with Texas Government Code §511.016(a).			
<b>Priority Rating:</b>	<b>Audit Recommendations:</b> Sheriff Jail Commissary		
1	Commissary and Business Office Management should perform testing of the backup process and sequence of events necessary for resumption of commissary operations in the event of a system failure and/or disaster.		
1	Commissary Management should reconcile the current Commissary Price List with the system used to process transactions and provide an updated/reissued Commissary Price List that reflects the correct pricing and items available for purchase.  Commissary Management should, also, update and reissue the Commissary Price List each time the system used to process transactions has price changes, item additions, and/or item deletions.		

1	Commissary Management should maintain effective organization of each inmate's sales transaction ticket/invoice for operational transparency and accountability.
1	Business Office Management should implement a review procedure that helps ensure reconciliation of Commissary financial reports to IFAS on a quarterly basis and resolves any reconciling items timely for accurate reporting in IFAS.

<b>Priority Rating</b>	<ol style="list-style-type: none"> <li><b>1. Implement immediately (30 – 90 days)</b> – Serious internal control deficiencies; or recommendations to reduce costs, maximize revenues, or improve internal controls that can be easily implemented.</li> <li><b>2. Work towards implementing (6 – 18 months)</b> – Less serious internal control deficiencies, or recommendations that cannot be implemented immediately because of constraints imposed on the department (i.e., budgetary, technological constraints, etc.).</li> <li><b>3. Implement in the future (2 – 3 years)</b> – Recommendations that should be implemented, but that cannot be implemented until significant and/or uncontrolled events occur (i.e., legislative changes, buy and install major systems, requires third party cooperation, etc.).</li> </ol>
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