

AUDITOR'S REPORT

SHERIFF'S OFFICE JAIL COMMISSARY



February 21, 2014

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

February 21, 2014

Adrian Garcia
Harris County Sheriff
1200 Baker
Houston, TX 77002

RE: Sheriff Office Jail Commissary for the 12 month period ended February 28, 2013.

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 the following procedures to determine whether:

- Revenue and expenditures recorded in the Commissary System and the County's financial records are reasonable compared to the three prior years.
- Security of assigned user access rights is adequate and appropriate.
- Selected bank reconciliations and related balances are accurately and timely recorded in the Commissary System and the County's financial records.
- Selected disbursements are in compliance with statute and are properly authorized, supported, approved, accurately recorded in the Commissary System and the County's financial records, and purchases are from approved vendors.
- Sales and sales tax payable are accurately recorded in the Commissary System and County's financial records and the correct amount is deducted from the respective inmates' trust accounts.
- Cost of sales and the value of closing inventory are accurately recorded in the Commissary System and the County's financial records.
- Selected adjusting entries are appropriate and properly approved.
- Previously reported recommendations are implemented.

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 were to explain the process, identify areas of concern, describe the procedures to

Adrian Garcia
Harris County Sheriff

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 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
 El Franco Lee
 Jack Morman
 Steve Radack
Devon Anderson
Vince Ryan
William J. Jackson

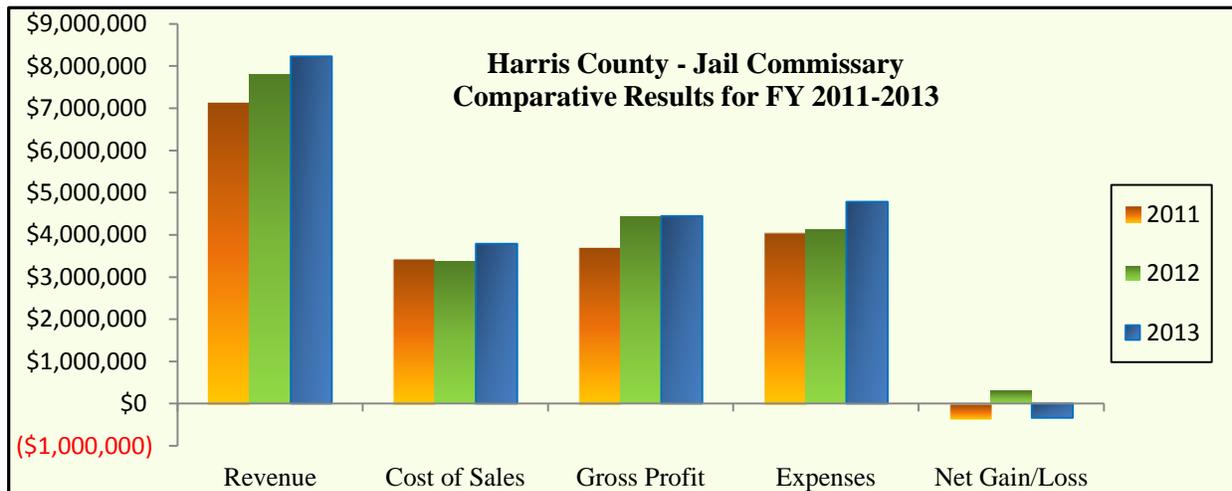
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OVERVIEW

The Sheriff’s Office operates a Commissary 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 Account. 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).

The following chart presents comparative results of Commissary operations and the expenditures for the fiscal years ended February 2011, 2012, and 2013.



Prior to April 2012 the Commissary utilized a computer system (Cobra System), supported by Swanson, as their Commissary System to record receipt and disbursement transactions related to Trust Accounts, including inmate orders and medical expenses. The Commissary now uses the Canteen Manager System (Canteen), supported by Trinity Services Group, to perform the same functions. Canteen records Commissary sales transactions (inmate orders) through the use of Scantron sheets, maintains Commissary inventory, and generates monthly sales and sales tax reports. Although Canteen 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 sales taxes due on Commissary sales. Monthly summaries of transactions are submitted to the Auditor’s Office - Financial Accounting Department (Financial Accounting) and are recorded in the County’s financial system. Certain financial transactions such as depreciation, investment earnings, and bank interest are only recorded in the County’s financial system. Generally, the Sheriff’s Office uses a structured bid solicitation process for selecting Commissary inventory item vendors.

RESULTS

Based upon the procedures performed and as presented in our letter, in accordance with TGC §511.016, to the Texas Commission of Jail Standards:

- No matters came to our attention that would cause us to believe that the Commissary accounts were not maintained in compliance with the statutes, and
- New bids were accepted in accordance with LGC §351.0415(b)(3).

It appears that Commissary proceeds were used for the benefit of the inmates or to fund, staff, and equip Commissary operations in accordance with LGC §351.0415(c). However, there was a lack of evidence to support that seven County employees worked in the Commissary for a period of time for which the County was reimbursed approximately \$41,000 of their salaries and benefits by the Commissary fund. Additionally, due to certain system limitations and processes, we were unable to determine the correctness of the sales account balance. In addition, cost of goods sold was overstated by \$50,215 in the County's financial system.

Subsequent to our procedures, the Sheriff's Office internal controls should be strengthened to ensure:

- A fiscal year-end expenditure reconciliation is performed for cost of goods sold and expense in total between the Commissary purchase journal and the County's financial records.
- A formal reimbursement tracking procedure includes procedures to ensure the accuracy of salaries and benefits reimbursed to the County.
- Year-end expense accrual listings submitted to Financial Accounting for recording in the County's financial records are reviewed for accuracy and completeness.
- Sales to indigent inmates are recorded as sales at the time of purchase.
- Miscellaneous collections from inmates such as laundry and vandalism are properly classified.
- Commissary price adjustments are tracked and approvals are documented.
- Inventory stock levels are periodically verified and quantity and unit costs are accurately updated in the Commissary System.
- Inmate sale orders documentation is retained and retrievable.
- A Disaster Recovery Plan is documented and system backups are periodically tested.
- Users of Commissary applications are assigned individual user accounts that have only the access that is required for the user to perform his or her job duties. Requests for access specify the specific access users need and have proper approval. Access for terminated or transferred employees is removed timely.
- Application logs are retained and specific elements of the logs are periodically reviewed.
- Workstations are configured to lock after a set time of inactivity.

As the Sheriff's Office is in the process of enhancing Canteen, these controls should be evaluated and built in the new system and/or processes where applicable. These and other matters are discussed in detail in the attached Issues and Recommendations matrix.

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
Total Expenditures	<p>Commissary Fund expenditures, including cost of goods sold, are classified via account coding by the Business Office staff in QuickBooks. These are submitted monthly to Financial Accounting via a QuickBooks report for inclusion in the County's financial records. At fiscal year-end, a QuickBooks report of unpaid invoices is also submitted to Financial Accounting for recording of accrued expenses.</p>	<p>Sufficient controls are not in place to ensure agreement of the transactions recorded in Commissary's QuickBooks and the County's financial records. Discrepancies between QuickBooks and the amounts recorded by Financial Accounting resulted in an overstatement of total expenses of \$244,336 (\$8,064,432 versus \$8,308,768) in the County's financial records year-to-date report of total expenditures. In addition, cost of goods sold was overstated by \$30,178 (\$3,635,556 versus \$3,665,734) in the County's financial records.</p> <p>Failure to accurately record Commissary transaction activity results in misstatements in the County's financial records.</p>	<p>Management should perform and document a fiscal year expenditure reconciliation between Commissary's year-to-date reports (purchase journal or check register) and the County's financial records. If differences are identified, they should be resolved timely to ensure accurate and complete recording in the County's financial records at fiscal year-end.</p>	<p>The HCSO Business Office will work with Financial Accounting to ensure IFAS reconciles to Quickbooks. Any discrepancies will be resolved in a timely manner.</p>
Expense Classification	<p>Commissary expenditures, including cost of goods sold, are classified via account coding by the</p>	<p>Miscellaneous items totaling \$20,037 that the Commissary does not sell to inmates were incorrectly</p>	<p>Management should provide training to enable staff to properly identify expenditures relevant to the</p>	<p>Management has provided more tools and education to improve the identification of items that are supplies and</p>

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Expense Classification	Business Office staff in QuickBooks. A system report is forwarded to Financial Accounting each month to facilitate recording of expenditures in the County's financial records. Cost of goods sold pertains only to Commissary inventory items that are sold to inmates.	coded in QuickBooks as cost of goods sold resulting in an overstatement of cost of goods sold. Inaccurate recording of cost of goods sold results in misstatements in the County's financial records and misleading profitability analysis of Commissary operations.	cost of goods sold account and code them accordingly. Additionally, management should perform and document a fiscal year cost of goods sold reconciliation between Commissary's year-to-date reports (purchase journal or check register) and the County's financial records. Differences should be identified and resolved timely to ensure accurate and complete recording at fiscal year-end.	items for resale in the Commissary. A catalog has been created, for reference, to note the items that are available for sale in the Commissary.
Salary Reimbursement to County	The Commissary is staffed by both County and contract personnel. The County employees are on the County's payroll, with an arrangement for the County to be reimbursed for those salaries and benefits from Commissary funds. According to TLGC §351.0415(c)(3) the sheriff may use commissary proceeds to establish, staff, and equip the commissary operation and fund the	The procedure for tracking Commissary salaries and benefits for reimbursement of the County's general fund appears inadequate. A review of records showed that seven employees included in the reimbursement process for FY 2013, with salaries and benefits totaling approximately \$41,000, were not on the Commissary manager's report of personnel working	Management should devise a reimbursement tracking procedure that includes coordination with the Commissary manager to ensure the accuracy of salaries and benefits reimbursed to the County.	The Commissary manager will track and report any personnel changes as they occur.

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Salary Reimbursement to County	salaries of staff responsible for managing the inmates' commissary accounts.	in the Commissary during that period. Failure to properly identify the reimbursable salaries and benefits could result in misstatements in the County's financial records.		
Year-End Accrual	To comply with the modified accrual basis of accounting, the County reviews invoices and other data received after year-end to correctly determine the timing of each item and ensure recording in the relevant fiscal period.	Fiscal year-end expense accruals were over stated by approximately \$24,600. One invoice in the amount of \$25,606, which was dated February 2013 but service not provided until March 2013, after fiscal year-end, was improperly included in the year-end accrual. It appears that the accrual was based on invoice date instead of service or delivery date, which generally establishes the timing of a liability. Additionally, one invoice in the amount of \$1,020.60, for which the invoice date and the date of service was February 2013, was improperly excluded from year-end accruals.	Management should ensure that the Business Office procedure for determining accrued expenses is based on dates of delivery of goods or services instead of invoice dates.	Additional training was performed to ensure proper accrual of expenses during the change in fiscal year.

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Year-End Accrual		Failure to accurately record Commissary transaction activity in the proper time period results in misstatements in the County's financial records.		
Stale-Dated Checks	Bank reconciliations are performed monthly to identify and investigate cash account differences between the County's financial records and bank statements. Such differences often include outstanding checks that are no longer negotiable due to age (stale-dated). Stale-dated items may be resolved by contacting payees and arranging to void and reissue checks. Some remain outstanding indefinitely and may become subject to unclaimed property reporting as outlined in Accounting Procedure D.14, <i>Unclaimed Property</i> , and related Texas Property Code (TPC), Chapters 72 and 74.	Bank reconciliation outstanding checks are not adequately monitored to ensure proper disposition of stale-dated checks. As a result, ten checks outstanding for 2 – 12 years (\$9,310) were voided in February 2013 without documentation or records supporting such action. Clearing of stale-dated checks generally requires contacting payees and arranging to void and reissue checks, or reporting checks as unclaimed property when contact with payees is lost. Although the reversal was reviewed and approved by Financial Accounting, arbitrarily reducing expenditures (voiding checks without supporting	Management should ensure that its disbursement and bank reconciliation procedures adequately address (a) follow-up activity necessary for timely clearing of outstanding checks, and (b) the annual review of such items required for compliance with unclaimed property statutes.	Annual review of the stale dated checks will be done to determine if any funds need to be sent to the county and state as unclaimed property or reissued, if necessary.

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Stale-Dated Checks		records) could result in misstatement in the County's financial records and/or a violation of unclaimed property statutes.		
Sales & Receivables	Commissary sales to indigent inmates are extended on credit and tracked as accounts receivable in Canteen for collection later. The Commissary Fund is an enterprise fund and thus requires recording of transactions on a full accrual basis to be in accordance with generally accepted accounting principles (GAAP).	Credit sales extended to indigent inmates are not recorded in accordance with GAAP, i.e., by crediting sales, with a corresponding charge to accounts receivable, in the County's financial records at the time of sale. Instead receivables are tracked and sales are recorded only if collections are made. Incomplete or untimely recording of sales causes misstatements in the County's financial records.	Management should revise its Commissary indigent inmate sales recording procedures to record sales as they accrue in accordance with GAAP.	Management will determine the best practice for accounting of indigent items while following GAAP.
Miscellaneous Accounts Receivable Collections	The Sheriff's Office maintains an accounts receivable ledger to track charges to inmates for items unrelated to Commissary inventory such as prescription eyeglasses, vandalism and laundry. Collections are	The Commissary fund receives reimbursement from inmate trust funds for non-inventory items, such as vandalism and laundry, however the Sheriff's Office does not maintain documentation stating the rationale for charging	Management should review its treatment of miscellaneous collections from inmates to ensure they are properly classified for recording in the County's financial records, and formally document their reasoning for such	Policies will be provided to further explain the rationale for charging inmates for miscellaneous collections, such as vandalism.

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Miscellaneous Accounts Receivable Collections	made for the items as funds become available in inmates' accounts.	inmates for these items and how these transactions are classified. Unexplained charges could represent misstatement of revenue in the County's financial records.	classification.	
Sales Price Authorization	Management informed us that during FY 2013 no formal written process for establishing prices was in place and that price change decisions are generally communicated informally to Commissary personnel.	Commissary item sales price changes and their effective dates are not formally approved or adequately documented. As such, we could not determine whether inmates were timely and consistently charged approved prices. The Commissary Price List should be the same as prices charged to inmates through Canteen. Without documentation of management's authorized price changes, accountability for pricing errors and irregularities in the system could be lost.	Management informed us that documentation of price adjustments began in June of 2013 and should be evident during our FY 2014 engagement. Based on management's comment regarding a recently revised process for documenting price adjustments, we will evaluate the new procedure during the FY 2014 engagement and develop a recommendation as needed.	A formal, written process for documenting and approving price changes has been implemented. Authorization to implement price changes in the Canteen software has also been restricted.
Inventory Variances	Efficient and reliable inventory management requires prompt and	Canteen reported quantity variances of 10 percent or greater (favorable and	Management should consider implementing cycle counting, where most	Monthly cycle counts, to ensure accurate inventory, have been implemented.

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Inventory Variances	accurate updating of Canteen for product receipt and usage so that balances will correctly represent stock on hand at any given point.	unfavorable) on 123 of the 178 product categories (69 percent). Overall, the net variance was \$27,577 unfavorable, (approximately 10 percent of value at cost). Management informed us that they believe that clerical errors made by a former employee are, at least in part, the cause of the inventory variances. To address this concern, management is in the process of employing an Inventory Control Specialist. Unreliable perpetual inventory records negatively affect the accuracy of the County's financial records and management's ability to detect and react to inventory issues.	items would be scheduled for counting multiple times during the fiscal year, with fast-moving items counted most frequently.	
Physical Inventory Quantity Updates	The Commissary uses Canteen for inventory management, relying on its data to determine the timing and quantity of	Controls are not in place to ensure that updates to inventory quantities are properly made in Canteen after the annual physical	Management should revise the "Update Records" section of its physical inventory guidelines to require two employees to	As recommended, two employees are now required to update inventory records in the Canteen software. One employee performs the

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
<p>(Continued) Physical Inventory Quantity Updates</p>	<p>product replenishment. A physical inventory count is conducted annually to determine whether quantities on hand per the system are correct, and to make adjustments to system balances where needed.</p>	<p>inventory count. A comparison of system quantities to physical inventory (after updating) resulted in 83 discrepancies among the 178 product categories. Although the differences were relatively minor – less than 10 singles in most cases, with a total value of \$374 – the high error rate (47%) suggests a lack of adequate checks and balances for ensuring accurate maintenance of system records.</p> <p>Inaccurate inventory records negatively affect the accuracy of the County’s financial records and management’s ability to detect and react to inventory issues.</p>	<p>perform that function, one to input the quantity adjustments in Canteen, and the other to verify that the resulting system balances agree with the inventory count totals.</p> <p>Management has informed us that another physical inventory was conducted after implementation of a new Canteen enhancement in April 2013 and that system that balances were adjusted accordingly.</p>	<p>function of inputting the quantity adjustments in Canteen and the other verifies the correct physical count is entered.</p>
<p>Postage Stamp Custody</p>	<p>Postage stamps represented almost fifty percent of the Commissary’s inventory on hand at 2013 fiscal year-end (\$131,040 of \$282,516). Bulk storage is maintained in an iron safe at the San Jacinto</p>	<p>The 2013 fiscal year-end physical inventory revealed a negative variance (loss) on postage stamps of \$3,357, representing 373 books of 20 stamps each. Management informed us that all Commissary</p>	<p>Management has since informed us that the Commissary Manager now has sole custody over postage stamps, including the working supply. He will have a witness present for each entry to the</p>	<p>In addition to keeping a log for recording the movement of stamps, the Commissary staff will conduct periodic counts, as recommended.</p>

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Postage Stamp Custody	Commissary office, secured with a padlock under sole custody of the manager. Each of the two locations' working supply of stamps is kept in a combination lockbox stored in a cabinet drawer.	employees at each location have access to the combination lockbox, so accountability for the loss is not traceable. Since stamps are a major component of inventory, losses far greater than the current one could occur in the current custody environment.	working supply lockbox and record each addition or usage on a newly designed log, with signatures of both individuals. The new procedure includes having a backup custodian for occasions when the manager is not available. Management should, in addition to its new custody controls, consider scheduling monthly or other periodic counts of postage stamps as part of the recommended cycle counting mentioned under "Inventory Variances."	
Inventory Unit Cost Control	Inventory unit cost, a vital element in evaluating the Commissary's business performance, is maintained by Canteen. Costs are based on amounts agreed upon in the procurement bidding process. Physical inventory valuation is based on the Canteen's calculation of quantity multiplied by unit cost. Cost is determined by	Canteen does not include a control to avoid unintended changes to inventory unit cost. A product's unit cost was inadvertently changed in the system during the preparation of a purchase order. Commissary personnel detected the error shortly after it was made and corrected it. Since the yearly adjustment	Management should explore having Canteen's software developer add an application control to block changes to unit cost during routine data entry. Such changes should only be made during authorized file maintenance procedures.	Access to change unit costs has been removed from the daily Canteen software user.

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Inventory Unit Cost Control	contracts resulting from the bidding process.	to inventory in the County's financial system is based on system calculations, unit cost errors in the system would lead to misstatements in the financial records and unexplained variances in year-to-year analysis.		
Physical Inventory Preparation	To facilitate efficiency and accuracy, the Sheriff's Office has a documented guide to be followed in preparing for and conducting the annual physical inventory. The guide emphasizes use of count sheets including their proper placement in the stockroom and steps to ensure accuracy throughout the counting and reporting process.	<p>Departmental guidelines regarding count sheets were not followed in preparing for the physical inventory, resulting in numerous discrepancies that required recounts to resolve, and a two-day delay in Commissary personnel's completion of the physical inventory report. Discrepancies (24 at San Jacinto and 9 at Baker) were primarily attributable to failure to have an identifying count sheet attached to each stack of products.</p> <p>Inadequate preparation for physical inventory leads to inefficiencies related to recounts and increased risk</p>	Management should ensure department guidelines, including the use of count sheets, are reviewed with staff prior to conducting the annual physical inventory.	Additional preparation for the physical inventory will be provided. Recommendations will be followed to ensure an accurate physical count.

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Physical Inventory Preparation		of inaccurate reporting in the County's financial records.		
Orders Documentation	The Commissary obtains an inmate's signature and fingerprint for each sale as documented evidence of the inmate's receipt of goods.	Sufficient controls are not in place to ensure that sales receipt documentation is collected and retained. Five of the twenty (25%) fingerprinted sales receipts requested for review were not received because of difficulty Commissary personnel experienced in locating the items. Failure to locate receipt records could compromise the ability to resolve customer disputes and possibly hinder recovery efforts in case of system failure.	Management should review the process for obtaining and storing signature and fingerprint records for improvement opportunities.	Revised process and procedures for storage and organization of sales receipt documentation has been implemented.
Disaster Recovery / Business Continuity Processes	Management informed us that the data from QuickBooks and Canteen are replicated electronically to the virtual server and then to the Sheriff's Office Disaster Recovery site for backup purposes.	Written disaster recovery procedures to restore the Commissary operation do not exist, and there is no supporting documentation that the testing of backup data for QuickBooks and Canteen is performed.	Management should formally document the backup process along with the sequence of events necessary for the resumption of Commissary operations after a system failure and/or natural disaster.	The Commissary data is now included in the department's data backup process.

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Disaster Recovery / Business Continuity Processes		Without documented recovery procedures and testing of backups, it could be very difficult or impossible to resume operations following a disruption due to a system failure, emergency, and/or natural disaster.	In addition, the backup data at the disaster recovery site should be periodically tested to ensure that the data is properly recorded and successfully restored.	
Use of Admin Account in QuickBooks	Because of the critical risks inherent in using an account with a high level of security privileges for standard administrative or operating tasks, an Administrator level account should not be used unless there is a specific need, such as business continuity or application and user configurations.	<p>The Sheriff's Office utilized Admin, a generic administrator level account, to perform roughly 41% of all transactions in QuickBooks. This access is beyond what some users require to perform their job responsibilities.</p> <p>Allowing access beyond a user's needs creates a risk that the user will use that access to bypass or override controls established by management or make unauthorized transaction changes. Generic user accounts allow users to execute transactions that cannot be traced to a specific user, thereby reducing accountability.</p>	Management should create unique user accounts for all users and require that personnel use only their own account. The Admin account password should be changed and made known only to those personnel who are responsible for supporting the application.	The use of unique user accounts, for all users, has been implemented, as per recommendation.

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
<p>Administrator Group Assignment</p>	<p>Users should only be granted access to modules within their areas of responsibility, with assigned rights corresponding to their duties.</p>	<p>Commissary specialist personnel have all been assigned Commissary Administrator account rights, which surpasses the rights assigned to the Commissary Supervisor account. Five users have been granted Admin Level 2 group membership, and while it is a more restrictive group than the Administrator group, it still grants significant access rights across multiple modules in Canteen.</p> <p>Excessive rights can create situations where the supervisor cannot adequately supervise and monitor actions the specialists are performing, and can lead to errors or other action being performed by the specialist not being discovered in a timely manner. Additionally, granting access rights beyond a user's needs creates a risk that the user will use that</p>	<p>Management should configure the Commissary Clerk account with only the access rights needed by the specialists to perform their duties and remove them from the Commissary Admin group.</p> <p>Management should ensure that Administrative privileges are not granted to user accounts that are used for processing transactions.</p>	<p>Access rights are being reviewed to increase controls. Each person in the user group will have a specific access.</p>

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Administrator Group Assignment		access to bypass controls or make inappropriate changes.		
Log Review Process	Both QuickBooks and Canteen are capable of generating audit logs to record transaction details by date range. This information serves as a means for monitoring transactions, identifying training issues, and for detecting unusual user activities and transactions. Management informed us that upon request, the audit logs can be generated for management review.	Audit logs generated by both QuickBooks and Canteen are not formally reviewed to identify inappropriate user access, gaps in check and purchase order number sequences, duplicate charges, and credits to inmate accounts. This was reported on the Audit Services September 2012 report to the Sheriff's Office.	Management should formalize their approach for reviewing the QuickBooks and Canteen audit logs, to include creating a document that includes the name of the person performing the review and managerial acknowledgement of the review results. Periodically management should monitor the account activity to identify and address unusual activity.	Management will implement an audit log process and will determine an appropriate frequency for the review.
Access Request Forms	System access is provided through a process that requires management to create a request for access for an employee. This access request requires that the manager inform the system administrator responsible for overseeing the system (in this case QuickBooks and Canteen) that an account for access needs to be created and	QuickBooks user security access is verbally authorized by the supervisors, no documentation is required, and no user or managerial acknowledgement is created to document the creation or acceptance of an account, including what access levels are granted. In addition, Canteen user security access request	Management should strengthen controls for authorizing user security by utilizing an electronic or manual user security access form that is signed by the supervisor and employee. The need for access request forms was brought to management's attention in the Sheriff's Office Jail Commissary Report issued on 8/14/09 and subsequent	A user security access form is now being used for QuickBooks, similar to the one being used for Canteen. To strengthen controls, the new access form must be authorized by the employee and supervisor.

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Access Request Forms	what role is assigned to the account, which defines the permissions or rights that the account is assigned. This request should include formal managerial approval (usually a signature) and employee acceptance of responsibilities (also a signature), such as no sharing of login credentials. Finally, the system administrator should track dates when the account has been created and modified.	forms are incomplete. Of the 33 Canteen access request forms reviewed, none were filled out completely and 39% did not include the signature of the manager approving the access. Incomplete access request forms or the absence of a formal approval process could result in inappropriate user access being granted due to miscommunication, or accounts being assigned to personnel without appropriate oversight.	reports.	
Terminated / Transferred Employee Access	Management tracks employees that have, or had, user accounts in Canteen by maintaining a manual list of users and comparing this list to reports created by Canteen, which lists the employees whose accounts have been deactivated.	User accounts are not being deactivated in a timely manner. One employee had a transfer date of 11/2/2012, but her account was not deactivated until 5/10/2013. Another employee's account was listed in Sheriff's Office manual list as deactivated, but the system report showed a group membership of	Management should ensure that account access of employees that do not require access to their systems for any reason (termination, transfer, changes in assigned duties) have their access terminated in a timely fashion. Weekly reviews of account change request and employee status should be performed to ensure timely	Managers for different areas are responsible for requesting the deactivation from the Administrator.

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Terminated / Transferred Employee Access		<p>“Administrator” instead of deactivated.</p> <p>When access is not deactivated timely it could allow people that no longer require access to Canteen to access the system and perform malicious actions.</p>	system access removal.	
Inactivity Timeout	<p>Management informed us that users have been instructed to manually lock their workstation when they leave their work area. Workstations used to access QuickBooks and Canteen can be set to automatically lock after a set time of inactivity. This configuration setting can be used to ensure that the workstation would not be accessible to non-authorized users if the user that is logged on to the system is not at their work area in front of the system for a set period of time.</p>	<p>Neither the workstations’ operating system, nor the applications were configured to lock-out users after a period of inactivity. Additionally, not all users locked their workstations manually when not at their work areas.</p> <p>Without automatic inactivity lock-outs there is increased risk of unauthorized access to Sheriff Office’s systems and files from unattended workstations.</p>	<p>Management should request the Network Administrator configure the screen-lock feature in the workstations’ operating system so that all workstations will automatically lock after a period of inactivity.</p>	<p>Canteen software now has a time – out feature activated. The recommendation for an operating system automatic lock after inactivity will also be implemented.</p>

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.

Inherent Risk:	Control Risk:		Overall Risk:
<input type="checkbox"/> High <input checked="" type="checkbox"/> Moderate <input type="checkbox"/> Low	Prior to Procedures	After Procedures	<input type="checkbox"/> High <input checked="" type="checkbox"/> Moderate <input type="checkbox"/> Low
	Needs Improvement	Needs Improvement	
Type of Procedures: Audit			
Purpose: The objective of the engagement was to examine the Commissary accounts pursuant to LGC §351.0145(d), evaluate, on a test basis, compliance with the provisions established by LGC §351.0145(b)(3) and (c).			
Priority Rating:	Audit Recommendations: Sheriff's Office Jail Commissary		
1	Management should perform and document a fiscal year expenditure reconciliation between Commissary's year-to-date reports (purchase journal or check register) and the County's financial records. If differences are identified, they should be resolved timely to ensure accurate and complete recording in the County's financial records at fiscal year-end.		
1	Management should provide training to enable staff to properly identify expenditures relevant to cost of goods sold and code them accordingly.		
1	Management should perform and document a fiscal year cost of goods sold reconciliation between Commissary's year-to-date reports (purchase journal or check register) and the County's financial records. Differences should be identified and resolved timely to ensure accurate and complete recording at fiscal year-end.		
1	Management should devise a reimbursement tracking procedure that includes coordination with the Commissary manager to ensure the accuracy of salaries and benefits reimbursed to the County.		

1	Management should ensure that the Business Office procedure for determining accrued expenses is based on dates of delivery of goods or services instead of invoice dates.
1	Management should ensure that its disbursement and bank reconciliation procedures adequately address (a) follow-up activity necessary for timely clearing of outstanding checks, and (b) the annual review of such items required for compliance with unclaimed property statutes.
1	Management should revise its Commissary indigent inmate sales recording procedures to record sales as they accrue in accordance with GAAP.
1	Management should review its treatment of miscellaneous collections from inmates to ensure they are properly classified for recording in the County's financial records, and formally document their reasoning for such classification.
1	Management should consider implementing cycle counting, where most items would be scheduled for counting multiple times during the fiscal year, with fast-moving items counted most frequently.
1	Management should revise the "Update Records" section of its physical inventory guidelines to require two employees to perform that function, one to input the quantity adjustments in Canteen, and the other to verify that the resulting system balances agree with the inventory count totals.
1	Management should, in addition to its new custody controls, consider scheduling monthly or other periodic counts of postage stamps as part of the recommended cycle counting mentioned under "Inventory Variances."
1	Management should explore having Canteen's software developer add an application control to block changes to unit cost during routine data entry. Such changes should only be made during authorized file maintenance procedures.
1	Management should ensure department guidelines, including the use of count sheets, are reviewed with staff prior to conducting the annual physical inventory.
2	Management should review the process for obtaining and storing signature and fingerprint records for improvement opportunities.
2	Management should formally document the backup process along with the sequence of events necessary for the resumption of Commissary operations after a system failure and/or natural disaster. In addition, the backup data at the disaster recovery site should be periodically tested to ensure that the data is properly recorded and successfully restored.

1	Management should create unique user accounts for all users and require that personnel use only their own account. The Admin account password should be changed and made known only to those personnel who are responsible for supporting the application.
1	Management should configure the Commissary Clerk account with only the access rights needed by the specialists to perform their duties and remove them from the Commissary Admin group.
1	Management should ensure that Administrative privileges are not granted to user accounts that are used for processing transactions.
1	Management should formalize their approach for reviewing the QuickBooks and Canteen audit logs, to include creating a document that includes the name of the person performing the review and managerial acknowledgement of the review results. Periodically Management should monitor the account activity to identify and address unusual activity.
1	Management should strengthen controls for authorizing user security by utilizing an electronic or manual user security access form that is signed by the supervisor and employee. The need for access request forms was brought to management's attention in the Sheriff's Office Jail Commissary Report issued on 8/14/09 and subsequent reports.
1	Management should ensure that account access of employees that do not require access to their systems for any reason (termination, transfer, changes in assigned duties) have their access terminated in a timely fashion. Weekly reviews of account change request and employee status should be performed to ensure timely system access removal.
2	Management should request the Network Administrator configure the screen-lock feature in the Windows OS so that all workstations will automatically lock after a period of inactivity.

Priority Rating	<ol style="list-style-type: none"> 1. Implement immediately (30 – 90 days) – Serious internal control deficiencies; or recommendations to reduce costs, maximize revenues, or improve internal controls that can be easily implemented. 2. Work towards implementing (6 – 18 months) – 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.). 3. Implement in the future (two – three years) – 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.).
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