

**COUNTY OF HIDALGO
HIDALGO COUNTY AUDITOR'S OFFICE
COMMISSIONER'S COURT AGENDA REQUEST FORM**

NO. _____

DATE: September 19, 2007

MEETING DATE REQUEST: September 25, 2007 _____

DEADLINE FOR ACTION: _____ A.S.A.P. _____ CONTACT PERSON: _____ Ray Eufrazio, CPA _____

DEPARTMENT: _____ Hidalgo County Auditor's Office _____ PHONE: _____ (956) 318 - 2511 _____ FAX: _____ (956) 318 - 2577 _____

RAY EUFRACIO, CPA, HIDALGO COUNTY AUDITOR

CAPTION: _____ AGENDA

A. Presentation and approval of the Audit of the Jail Commissary and Inmate Trust Fund Account for the year ended December 31, 2006.

BUDGETARY IMPACT: \$ _____

BACKGROUND: *(Briefly summarize your request, if needed use separate sheet(s) or attach supporting documentation.)*

As per Local Government Code 351.0415(d) the County Auditor, at least once a fiscal year, shall fully examine the Jail Commissary accounts and present the findings of the examination to Commissioners Court.

Legal Counsel _____ **Budget:** _____ **Human Resources:** _____

Dept./Fund No.: _____ -1100-415-21-170-001-0- _____ **Amt. Expended: \$** _____ **Funds/Staffing Budgeted: Yes** _____ **No** _____

Account Code: _____ **Impact on Future Budget: Yes** _____ **No** _____

COMMENTS: _____

ACTION TAKEN BY COMMISSIONER'S COURT:

APPROVED ON: _____ **TABLED ON:** _____ **DENIED ON:** _____
(DATE) DATE (DATE)

MOTION MADE BY: _____ **SECONDED BY:** _____ **VOTE:** _____

**Report on
Audit of Sheriff's Jail Commissary and Inmate Trust Fund Account
For the Year Ended December 31, 2006
Audit No. 2007-01**



HIDALGO COUNTY AUDITOR'S OFFICE

**Raymundo Eufrazio, CPA
Hidalgo County Auditor**

**Linda C. Fong
First Assistant County Auditor**

**Arcilia B. Durán
Audit Director**

**Julio C. Espinosa
Internal Audit Supervisor**

**Letty Chavez
Internal Auditor**

September 2007

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COUNTY of HIDALGO



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P. O. BOX 689
EDINBURG, TEXAS 78540-0689

September 14, 2007

The Honorable Guadalupe "Lupe" Trevino
Hidalgo County Sheriff
Hidalgo County Sheriff's Office
711 El Cibolo Rd.
Edinburg, Texas 78540

Ref: Audit of Sheriff's Jail Commissary and Inmate Trust Fund Account
For the year ended December 31, 2006
Audit No. 2007-01

We have completed an audit of the Sheriff's Jail Commissary and Inmate Trust Fund Account for the year ended December 31, 2006, in accordance with Local Government Code §351.0415, §115.001, and our annual audit plan. The objectives of our audit were to determine whether:

1. Expenses made from Jail Commissary funds were properly accounted and made in compliance with Local Government Code §351.0415; and
2. Collections and disbursements in the Inmate Trust Fund Account were properly accounted and recorded.

The scope of our review was limited to randomly selected transactions for the year ended December 31, 2006. Our audit was not designed nor intended to be a detailed study of every relevant internal control system, procedure, or transaction. Accordingly, the opportunities for improvement presented in this report may not be all-inclusive of areas where improvement could be made. The responsibility for sound internal controls rests with management.

During the course of our audit, we noted one finding outside of the audit scope that due to its importance merits inclusion in the report. The finding is related to the underpayment of telephone commissions during the period of December 6, 2005 through May 31, 2007.

Based on the results of our audit, we have concluded that the expenses made by the Sheriff were properly accounted and made in compliance with Local Government Code §351.0415. In addition, collections and disbursements in the Inmate Trust Fund Account were generally properly accounted and recorded. However, improvements could be made to the procedures in

HIDALGO COUNTY DISTRICT JUDGES

RICARDO P. RODRIGUEZ, JR.
JUDGE, 92ND D.C.

RODOLFO DELGADO
JUDGE, 93RD D.C.

J. R. "BOBBY" FLORES
JUDGE, 139TH D.C.

ROSE GUERRA REYNA
JUDGE, 206TH D.C.

JUAN R. PARTIDA
JUDGE, 275TH D.C.

MARIO E. RAMIREZ, JR.
JUDGE, 332ND D.C.

NOE GONZALEZ
JUDGE, 370TH D.C.
OVERSEER

LETICIA LOPEZ
JUDGE, 389TH D.C.

AIDA SALINAS FLORES
JUDGE, 398TH D.C.

THOMAS P. WINGATE
JUDGE, 430TH D.C.

The Honorable Lupe Trevino
Audit No. 2007-01
September 14, 2007

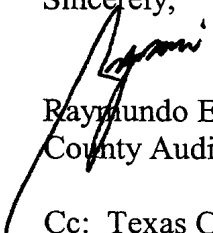
place for: the accounting and reporting of merchandise inventory; ensuring sales tax is properly collected; the financial accounting and reporting system of the Inmate Trust Fund Account; and ensuring telephone commissions are received in the proper amount in accordance with the contract.

In our opinion, these improvements could be easily achieved by implementing formal policies and procedures that will ensure an effective financial accounting and reporting system.

This report consists of an executive summary; a background; a list of findings, recommendations, and management responses; and the audit objectives, scope, and methodology.

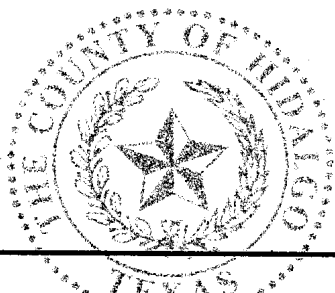
We would like to express our appreciation to you and your staff for the courtesy, cooperation, and assistance provided to us during the audit. If you should have any questions, please call Letty Chavez, Internal Auditor, at 318-2511 ext. 4651, Julio C. Espinosa, Internal Audit Supervisor, at ext. 4650, Arcy B. Duran, Audit Director, at ext. 4645, or me at ext. 4604.

Sincerely,



Raymundo Eufrazio, CPA
County Auditor

Cc: Texas Commission on Jail Standards
The Honorable JD Salinas, Hidalgo County Judge
The Honorable Sylvia Handy, Hidalgo County Commissioner, Precinct 1
The Honorable Hector Palacios, Hidalgo County Commissioner, Precinct 2
The Honorable Jose M. Flores, Hidalgo County Commissioner, Precinct 3
The Honorable Oscar Garza, Hidalgo County Commissioner, Precinct 4



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EXECUTIVE SUMMARY

We have completed an audit of the Sheriff's Jail Commissary and Inmate Trust Fund Account for the year ended December 31, 2006, in accordance with Local Government Code §351.0415, §115.001, and our annual audit plan. The objectives of our review were to determine whether:

1. Expenses made from Jail Commissary funds were properly accounted and made in compliance with Local Government Code §351.0415; and
2. Collections and disbursements in the Inmate Trust Fund Account were properly accounted and recorded.

The scope of our review was limited to randomly selected transactions for the year ended December 31, 2006. Our audit was not designed nor intended to be a detailed study of every relevant internal control system, procedure, or transaction. Accordingly, the opportunities for improvement presented in this report may not be all-inclusive of areas where improvement could be made. The responsibility for sound internal controls rests with management.

During the course of our audit, we noted one finding outside of the audit scope that due to its importance merits inclusion in the report. The finding is related to the underpayment of telephone commissions during the period of December 6, 2005 through May 31, 2007.

In planning and performing our audit, we conducted interviews with the staff of the Sheriff's Office, prepared flowcharts of the major operations, and reviewed applicable statutes, regulations, contracts, rules, policies, and procedures. The following procedures were performed:

- Reviewed randomly selected paid invoices to determine if expenses were made in compliance with Local Government Code §351.0415.
- Reviewed randomly selected welfare kit transactions to determine if the kits had been distributed to eligible inmates.
- Reviewed the procedures in place for the accounting and safeguarding of movie videos purchased for the recreation of inmates.
- Reviewed daily sales reports to determine if sales were deposited to the Jail Commissary bank account and to determine if inmate individual accounts were reduced by the amount of daily sales made to the inmate.
- Conducted a physical merchandise inventory count to determine if the inventory quantities per *Ableterm* agreed to the quantities held on hand by the Jail Commissary.
- Reviewed the "Jail Commissary Inventory Report" generated through *Ableterm* to determine if sales tax was properly collected.
- Reviewed financial statements for the Jail Commissary and Inmate Trust Fund Account.
- Reviewed telephone commissions received to determine if commissions received were based on the commission calling rates stipulated in the contract between Hidalgo County and Evercom Systems, Inc.

Overall Conclusion

Based on the results of our audit, we have concluded that the expenses made by the Sheriff were properly accounted and made in compliance with Local Government Code §351.0415. In addition, collections and disbursements in the Inmate Trust Fund Account were generally

EXECUTIVE SUMMARY

properly accounted and recorded. However, improvements could be made to the procedures in place for: the accounting and reporting of merchandise inventory; ensuring sales tax is properly collected; the financial accounting and reporting system of the Inmate Trust Fund Account; and ensuring telephone commissions are received in the proper amount in accordance with the contract.

In our opinion, these improvements could be easily achieved by implementing formal policies and procedures that will ensure an effective financial accounting and reporting system.

The following is a summary of our findings and recommendations. The detailed findings and recommendations follow the summary.

Summary of Findings:

1. Expenses from the Jail Commissary proceeds were made in accordance with Local Government Code §351.0415.
2. Procedures are in place to ensure welfare kits are issued to eligible indigent inmates.
3. Procedures are in place for the proper accounting and safeguarding of movie videos.
4. Procedures are in place to ensure that Jail Commissary sales and inmate individual accounts are properly accounted and safeguarded.
5. Procedures for the accounting and reporting of merchandise inventory require improvement.
6. Procedures for ensuring sales tax is properly collected require improvement.
7. Improvements could be made to the financial accounting and reporting system for the Inmate Trust Fund Account.
8. Procedures are not in place to ensure that telephone commissions received are in compliance with the telephone service contract terms.

Summary of Recommendations:

1. Continue with established procedures to ensure that expenses made using Jail Commissary proceeds are made in accordance with Local Government Code §351.0415.
2. Continue with established procedures to ensure that welfare kits are only issued to eligible indigent inmates.
3. Continue with established procedures for the proper accounting and safeguarding of movie videos.
4. Continue with established procedures to ensure that Jail Commissary sales and inmate individual accounts are properly accounted and safeguarded.
5. Develop and implement formal procedures for the proper accounting and reporting of merchandise inventory.
6. Develop and implement formal procedures to ensure that sales tax is collected only on taxable items.
7. Develop and implement formal procedures to ensure that the financial accounting and reporting system for the Inmate Trust Fund Account is adequate.
8. Develop and implement procedures to ensure that telephone commissions received are in compliance with the telephone service contract terms.

BACKGROUND

Local Government Code §351.0415 authorizes the Sheriff to operate a commissary for the use of the inmates committed to the county jail. The commissary must be operated in accordance with rules adopted by the Commission on Jail Standards. Commissioners' Court may not use commissary proceeds to fund the budgetary operating expenses of the county jail. The Sheriff has exclusive control of the commissary funds and must use commissary profits only to:

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

Organizational Structure

The Jail Commissary employs seven individuals, consisting of a Senior Detention Officer and six Jail Commissary Clerks. The Senior Detention Officer is responsible for the general supervision of the Jail Commissary, evaluating whether inmates have sufficient funds in their accounts to purchase goods from the Jail Commissary, ordering merchandise inventory, and entering the merchandise inventory into *Ableterm*. *Ableterm* is a software program utilized by the Sheriff's Office for a wide range of tasks including the operation of the Jail Commissary and maintenance of inmates' cash balances. Jail Commissary Clerks are responsible for taking merchandise orders and delivering items ordered to the inmates and the storage, control, and count of merchandise inventory. In addition, the Jail Commissary Clerks assist the general public with any questions regarding the inmate Jail Commissary system.

Jail Commissary Bank Account

Pursuant to Local Government Code §351.0415 (b)(2) the Sheriff must maintain commissary accounts showing the amount of proceeds from the commissary operation and the amount and purpose of disbursements made from the proceeds. The Sheriff accomplishes this responsibility by maintaining the Jail Commissary bank account and preparing financial statements consisting of a statement of revenues, expenses and change in fund balances, a balance sheet, and bank reconciliation. The Sheriff is required to submit these financial statements to the County Auditor's Office, on a monthly basis, along with subsidiary ledgers and other supporting documentation. As of December 31, 2006, the Jail Commissary bank account had cash on deposit totaling \$835,551.69. The Jail Commissary generated revenues totaling \$1,070,144.47 and incurred expenses totaling \$860,652.79, resulting in net income of \$209,491.88 for the year ended December 31, 2006.

The Jail Commissary operates weekdays including holidays. The merchandise inventory consists of approximately 222 items. Categories include: personal care (hygiene for hand and body), hair care, snacks, beverages, candy, food items, stationery supplies, greeting cards, phone cards, underclothes, and medication. Inmates may purchase items from the Jail Commissary by

BACKGROUND

completing a pre-printed order form, also known as a "Wish List". The Jail Commissary staff reviews the inmate's account balance in *Ableterm* to determine if sufficient funds are available to fulfill the inmate's order request. If the inmate does not have sufficient funds, the inmate's commissary order is voided and the inmate is notified of their account balance. The inmate may choose to place another order for the following week based on his/her available account balance. If the inmate has sufficient funds to purchase all items on the order form, the inmate's account balance is reduced by the total amount ordered.

After the end of each commissary workday, the Senior Detention Officer submits the daily "Commissary Sales Report" to the Jail Clerk. The Jail Clerk then submits the report to the releasing officer who issues a check from the Inmate Trust Fund Account to the Jail Commissary bank account for the total sales amount on the daily "Commissary Sales Report". The Jail Clerk then prepares the deposit and sends the deposit to the bank. The Jail Clerk forwards a copy of the check, validated deposit slip, and the "Commissary Sales Report" to the Senior Detention Officer.

A sheriff may expend commissary proceeds under Local Government Code §351.0415 without complying with the County Purchasing Act, chapter 262, subchapter C of the Local Government Code as opined in attorney general opinion JC-0122 (1999).

The Senior Detention Officer orders merchandise inventory twice a week. The approval of the Commander or Captain is required for orders exceeding \$1,000. When merchandise is received, the Senior Detention Officer and his staff count and confirm the items received to the invoice. If any discrepancies are noted, the Senior Detention Officer notifies the company and a credit is recorded for future purchases. The accounting department will only pay for the number of items actually received. Once all the merchandise is verified, the Senior Detention Officer updates the inventory in *Ableterm* to reflect the new inventory count.

A physical merchandise inventory count is made on a monthly basis. The Jail Commissary staff prepares an inventory adjustment log for any variances found between the physical merchandise inventory count and the *Ableterm* inventory system. Inventory adjustments are made to the *Ableterm* inventory system only after review and approval by management.

Welfare Kits and Hygiene Kits

According to the staff of the Sheriff's Office, either a welfare kit or a hygiene kit is immediately issued to inmates who are incarcerated. Hygiene kits are purchased by inmates that have funds over \$2.00. Pursuant to Texas Administrative Code (TAC) §277.4, indigent inmates are provided with a welfare kit, consisting of envelopes, stamps, writing material, soap, deodorant, toothpaste, toothbrush, comb, and a razor. A total of 8,412 welfare kits were issued to inmates for the year ended December 31, 2006.

The Hidalgo County Sheriff's Department Inmate Handbook 2006 states that an inmate may qualify for a welfare kit if he/she has an inactive commissary account balance of \$2.00 or less. If the account is active and has a balance of \$2.00 or less, the inmate must wait a period of 2 weeks before they qualify. Inmates must wait a period of 14 days before submitting a request for another welfare kit. An inmate must complete a commissary slip in order to receive such a kit.

BACKGROUND

Inmate Telephone Service

Inmates are allowed to make telephone calls by calling collect or using a prepaid calling card sold by the Jail Commissary. Hidalgo County entered into a two-year contract on December 6, 2005 with Evercom Systems, Inc. to provide telephone service to inmates. The contract allows for three (3) additional one (1) year term renewals. The contract stipulates that Hidalgo County will receive telephone commissions based on a percentage of the monthly gross billed telephone revenues as follows:

- Monthly telephone revenues for local service: 58% of monthly gross billed revenues from all installed telephones based on a flat local calling rate of \$3.00; and
- Monthly telephone revenues for long distance service: fifty eight percent (58%).

In addition, Evercom agreed to provide Hidalgo County Sheriff's Jail Commissary a forty percent (40%) monthly discount on prepaid calling cards (i.e. a \$10.00 International Debit Card will cost \$ 6.00; a \$20.00 International Debit Card will cost \$12.00; and a \$30.00 International Debit Card will cost \$18.00).

Hidalgo County received telephone commission revenues from Evercom for deposit into the County's General Fund totaling \$354,376.17 for the year ended December 31, 2006. During the same period, prepaid calling cards sold by the Jail Commissary totaled \$208,500.00 and were deposited into the Jail Commissary bank account.

Inmate Trust Fund Bank Account

The Inmate Trust Fund Account, a non-interest bearing account, was established to provide for the safekeeping of inmate funds. As of December 31, 2006, the Inmate Trust Fund Account held cash on deposit totaling \$140,756.78. Upon booking of an inmate, the Sheriff takes possession of money held by the inmate and deposits the money into the Inmate Trust Fund Account. An inmate may also receive money (only money orders are accepted) from family and friends during their incarceration. The Sheriff issues receipts for all funds received and creates individual inmate accounts in *Ableterm*. Funds received during the weekday are deposited on a daily basis to the Inmate Trust Fund Account. Funds received during the weekend are safeguarded under lock and key and deposited on Monday.

A total of \$1,895,805.52 was collected from inmates confined to the County Jail for the year ended December 31, 2006. Inmates have access but not physical control of the funds during their confinement. The inmate may use the money in his account to make purchases from the Jail Commissary. Upon discharge, an inmate is issued a check from the Inmate Trust Fund Account for the balance in his/her account.

The Inmate Trust Fund Account is generally reconciled to the Sheriff's books on a monthly basis. The Sheriff is required to submit the bank reconciliation and balance sheet to the County Auditor's Office, on a monthly basis, along with subsidiary ledgers and other supporting documentation.

FINDINGS, RECOMMENDATIONS & MANAGEMENT RESPONSES

Finding No. 1: Expenses from the Jail Commissary proceeds were made in accordance with Local Government Code § 351.0415.

Condition:

We reviewed 60 out of 294 (20%) randomly selected paid invoices to determine if expenses were made in compliance with Local Government Code §351.0415. The results of our review revealed that all sixty (60) invoices tested were in compliance with Local Government Code §351.0415.

Criteria:

Local Government Code §351.0415 gives the Sheriff exclusive control of the Jail Commissary funds and must use Jail Commissary proceeds only to:

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

Cause:

Procedures have been implemented to ensure that expenses from the Jail Commissary proceeds are made in accordance with Local Government Code §351.0415.

Effect:

Funds will be available for equipping the Jail Commissary operation, educating inmates, and supplying inmates with clothing, writing materials, and hygiene supplies.

Recommendation:

Continue with established procedures to ensure that expenses made using Jail Commissary proceeds are made in accordance with Local Government Code §351.0415.

Finding No. 2: Procedures are in place to ensure welfare kits are issued to eligible indigent inmates.

Condition:

We selected a random sample of 30 out of 3,953 welfare kit transactions during the period of July through December 2006 to determine if the kits had been distributed to inmates with an inactive commissary account balance of \$2.00 or less at the time the kit was issued. The results of our review revealed that all thirty (30) welfare kits were issued to eligible inmates.

FINDINGS, RECOMMENDATIONS & MANAGEMENT RESPONSES

Criteria:

The Hidalgo County Sheriff's Department Inmate Handbook 2006 states that an inmate may qualify for a welfare kit if he/she has an inactive account of \$2.00 or less. If the account is active and has a balance of \$2.00 or less, the inmate must wait a period of 2 weeks before they qualify. Inmates must wait a period of 14 days before submitting a request for another welfare kit.

Cause:

Procedures have been implemented to ensure that welfare kits were issued only to indigent inmates.

Effect:

Funds are not spent on welfare kits issued to ineligible inmates. Therefore, more funds are available to fund, staff, and equip programs addressing the social, educational, and recreational needs of the county prisoners.

Recommendation:

Continue with established procedures to ensure that welfare kits are only issued to eligible indigent inmates.

Finding No. 3: Procedures are in place for the proper accounting and safeguarding of movie videos.

Condition:

We selected 27 out of 274 (10%) movie videos to determine if procedures were in place to ensure movie videos were properly accounted and safeguarded. The results of our review revealed that all 27 videos were properly accounted and safeguarded.

Criteria:

Generally accepted accounting principles require that inventory be properly accounted.

The Jail Commissary has implemented procedures requiring that inmates interested in checking out a movie video fill out a "Hidalgo County Jail Commissary VHS Movie Requisition Form." The inmates are required to list their name and SPN#, the videos desired, and the date of request. Once the form is approved, the person approving the request signs the form. Movie videos are inventoried every two weeks and at the end of each month. If a video is damaged, the Senior Detention Officer must approve the removal of such video from the inventory list.

Cause:

Procedures have been implemented for the accounting and safeguarding of movie videos, which include keeping an inventory of the movie videos and requiring for the check-in/check-out of videos.

Effect:

An effective inventory system reduces the risk of loss or theft of movie videos.

FINDINGS, RECOMMENDATIONS & MANAGEMENT RESPONSES

Recommendation:

Continue with established procedures for the proper accounting and safeguarding of movie videos.

Finding No. 4: Procedures are in place to ensure that Jail Commissary sales and inmate individual accounts are properly accounted and safeguarded.

Condition:

We randomly selected 60 out of 298 (20%) "Daily Sales Reports" and compared the total daily sales amount to the total amount on the "Daily Sales as per Transactions During the Period" to determine if:

- Inmate individual accounts were reduced by the amount of daily sales made to each inmate; and
- Proper sales amounts were deposited to the Jail Commissary bank account in a timely manner.

The results of our review revealed that in all 60 instances, inmate individual accounts were properly reduced and the correct sales amount were deposited to the Jail Commissary bank account in a timely manner.

Criteria:

Current procedures require that a "Daily Sales" report, which contains the total daily sales, and a "Daily Sales as per Transactions During the Period" report, which lists the names of each inmate and the amount of sales made to the inmate for the day, be generated daily and reconciled against each other before a check is issued from the Inmate Trust Fund bank account to the Jail Commissary bank account and to ensure that an inmate's individual account in *Ableterm* is reduced by the amount of the sale. Procedures also require that sales receipts be deposited on a daily basis except on weekends.

Cause:

Procedures have been implemented to ensure that Jail Commissary sales and inmate individual accounts are properly accounted and safeguarded.

Effect:

The proper accounting and safeguarding of sales generated by the Jail Commissary results in profits being available for equipping the Jail Commissary operation, educating inmates, and supplying inmates with clothing, writing materials, and hygiene supplies. In addition, the proper accounting and safeguarding of inmate funds reduces the County's liability to inmates for loss of funds.

Recommendation:

Continue with established procedures to ensure that Jail Commissary sales and inmate individual accounts are properly accounted and safeguarded.

FINDINGS, RECOMMENDATIONS & MANAGEMENT RESPONSES

Finding No. 5: Procedures for the accounting and reporting of merchandise inventory require improvement.

Condition:

We conducted a physical merchandise inventory count to determine if the inventory quantities per *Ableterm* agreed to the quantities held on hand by the Commissary. The results of our review revealed that the inventory count per accounting records did not agree to the actual physical inventory count. Out of 222 inventory items, 108 (49%) items had either a positive or negative variance. Variances ranged from a negative 128 to a positive 623 items with a net of \$378.80.

In addition, we randomly selected 4 out of 12 (33%) monthly inventory reports generated from *Ableterm* to determine whether the unit costs per the reports agreed to the unit costs reported on the Jail Commissary balance sheet. The results of our review revealed that unit costs per the inventory reports generated through *Ableterm* did not agree to the unit costs reported on the balance sheet. The inventory reports generated from *Ableterm* use the cost of the purchase to value the inventory while the balance sheet generated from *QuickBooks* uses the average cost method.

Criteria:

Proper accounting procedures require that the value and count of inventory items on hand agree to the value and count of inventory items per accounting records. Inventory must be reported in a method authorized by generally accepted accounting principles, such as the average cost.

Cause:

Procedures for the proper accounting and reporting of merchandise inventory have not been implemented.

Effect:

Failure to properly account for inventory may result in errors and irregularities going undetected.

Recommendation:

Formal procedures for the proper accounting and reporting of merchandise inventory should be developed and implemented. At a minimum, procedures implemented should require that:

- Merchandise inventory purchases and sales entered into *Ableterm* are verified for accuracy;
- Merchandise inventory from cancelled sales are added back to inventory;
- A physical inventory count of all items is conducted and reconciled to inventory reports generated through *Ableterm* and balance sheet on a monthly basis; and
- The method of valuing merchandise inventory in *Ableterm* agrees to the method used by *QuickBooks*.

Management Response:

Management concurs. Procedures for recommendations will be drafted by jail personnel for approval of jail command staff and Sheriff's Office executive staff. However, the last recommendation is not achievable due to the nature of the software system *Ableterm* (related

FINDINGS, RECOMMENDATIONS & MANAGEMENT RESPONSES

costs to modify ableterm). Quickbooks is utilized by Sheriff's Office financial personnel to cost inventories and should be the only software system the Auditor's Office relies on.

Target Date of Remedial Action:

October 31, 2007

Finding No. 6: Procedures for ensuring sales tax is properly collected require improvement.

Condition:

We reviewed the "Jail Commissary Inventory Report" generated through *Ableterm* to determine if sales tax was properly collected. The result of our review revealed that out of 222 items, sales tax was collected on 87 (40%) nontaxable items. These nontaxable items mainly consisted of medication and certain food items.

Criteria:

Tax Code Chapter 151 requires retailers to collect sales tax for certain items. The Texas State Comptroller's web site describes the items that are taxable and non-taxable. A few items that are taxable include: clothing, brushes, candy, cards, dental floss, shampoo and rinses. Some items that are nontaxable include: medicated products, cookies, bread, coffee, water, meats, and chips.

Cause:

Formal procedures have not been developed and implemented to ensure that sales tax is collected only on taxable items.

Effect:

The collection of taxes on nontaxable items may result in the Jail Commissary having to refund inmates for sales tax collected in error.

Recommendation:

Formal procedures should be developed and implemented to ensure that sales tax is collected only on taxable items. Assistance from the State Comptroller's Office should be sought in order to determine whether certain items are taxable or nontaxable.

Management Response:

Management concurs. Procedures will be drafted by Jail staff to implement the verification and application of a tax rate on taxable items. The State Comptroller's Office will serve as the guiding authority on this issue.

Target Date of Remedial Action:

October 31, 2007

FINDINGS, RECOMMENDATIONS & MANAGEMENT RESPONSES

Finding No. 7: Improvements could be made to the financial accounting and reporting system for the Inmate Trust Fund Account.

Condition:

The Sheriff's Office submits to the County Auditor's Office, on a monthly basis, a balance sheet and bank reconciliation for the bank accounts along with subsidiary ledgers and other supporting documentation. In addition, the Sheriff's Office submits a statement of revenues and expenses for the Jail Commissary.

Our review of these financial statements revealed that in the Inmate Trust Fund Account: 1) amounts due from others are not collected on a timely basis; 2) amounts subject to escheat are not escheated to the County Treasurer in a timely manner; 3) delinquent amounts owed to the Sheriff's Office are not forwarded to the County Treasurer for collection; 4) various balance sheet accounts lacked adequate supporting documentation; and 5) a bank reconciliation is not prepared in a timely manner. More specifically, the results of our review revealed the following:

Inmate Trust Fund Balance Sheet

- "Accounts Receivable" totaled \$341.29 and consisted mainly of overpayments to inmates dating as far back as December 3, 2003. Overpayments resulted from issuing payments prior to all commissary sales being posted to inmate accounts and from posting of amounts received to the wrong inmate accounts. Delinquent accounts were not forwarded to the County Treasurer for collection.
- "Due to Others – County Treasurer" totaled \$46,186.33 and consisted mainly of outstanding checks issued to inmates dating between 1980 and 2001. These funds are subject to escheat to the County Treasurer's Office; however, supporting documentation provided does not contain the names of individuals to whom funds are owed.
- "Due to Others – Inmates" totaled \$1,145.29 and consisted mainly of funds owed to inmates as a result of posting errors dating between May 31, 1998 and August 4, 2006. These funds have not been refunded to their rightful owner or escheated to the State Comptroller or County Treasurer, as appropriate.
- "Held in Trust" totaled \$58,928.20 as of December 31, 2006; however, the amount per the "Inmate Prior Balance Report" generated from *Ableterm* (subsidiary ledger) totaled \$51,695.93, resulting in a net difference of \$7,232.27. According to the Sheriff's Office staff, the difference resulted during the transition from the prior software to *Ableterm*.

Inmate Trust Fund Bank Reconciliation

- We reviewed bank account reconciliations and supporting documentation for the Inmate Trust Fund Account for the year ended December 31, 2006 to determine if procedures were in place to ensure that all bank transactions were properly authorized and bank reconciliations were prepared and submitted to the County Auditor's Office in a timely manner. The results of our review revealed that inmates utilized the Inmate Trust Fund Account for unauthorized transactions totaling \$13,443.54 during the months of June through September 2006. In addition, we noted that the Inmate Trust Fund Account was not reconciled and submitted to the County Auditor's Office on a timely basis. Furthermore, the above mentioned unauthorized transactions were not discovered until September when the bank reconciliation for the month of June was prepared. After a

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diligent effort, the bank agreed to reimburse the Inmate Trust Fund Account for the total amount of the unauthorized transactions.

Criteria:

Local Government Code §112.002 states that in a county with a population of 190,000 or more, the county auditor shall prescribe the system of accounting for the county. The County Auditor has established procedures requiring that county departments submit financial statements with adequate supporting documentation to the County Auditor's Office on a monthly basis and submit them to the County Auditor's Office before the tenth (10th) working day of the following month. In addition, the County Auditor's Office requires that, at a minimum, the cash balance reported per the bank statement be reconciled to the cash balance per the accounting records on a monthly basis. The County Auditor has also recommended that amounts owed to others be disbursed and amounts owed from others be collected in a timely manner.

Local Government Code §113.902 states that the county treasurer shall direct prosecution for the recovery of any debt owed to the county, as provided by law, and shall supervise the collection of the debt.

Property Code §72.101 states, "(a) Except as provided by this Section and Sections 72.1015, 72.1016, and 72.102, personal property is presumed abandoned if, for longer than three years: (1) the existence and location of the owner of the property is unknown to the holder of the property; and (2) according to the knowledge and records of the holder of the property, a claim to the property has not been asserted or an act of ownership of the property has not been exercised. (b)(1) The three-year period leading to a presumption of abandonment of stock or another intangible ownership interest in a business association, the existence of which is evidenced by records available to the association, commences on the first date that either a sum payable as a result of the ownership interest is unclaimed by the owner or a communication to the owner is returned undelivered by the United States Postal Service".

Property Code §76.001 states, "This chapter applies only to the holder of property if: (1) the holder is a school district, municipality, or county; and (2) the property is (A) presumed abandoned under Chapter 72 or 75; and (B) valued at \$100 or less". In addition, Property Code § 76.101 (a) states, "Each holder who on June 30 holds property subject to this chapter shall file a report of that property on or before the following November 1. Each report shall be filed with the treasurer of the holder as provided by this section and on forms prescribed by the treasurer of the holder".

The State Comptroller has established procedures and filing deadlines for escheating unclaimed funds. The State Comptroller requires that unclaimed funds as of June 30 of each year be submitted by November 1 of every year. Funds are considered abandoned and unclaimed as follows: bank accounts, certificates of deposit, and safe deposit box contents - 5 years; money orders - 7 years; traveler's checks - 15 years; and all other property types - 3 years.

Cause:

Formal procedures have not been developed and implemented to ensure the financial accounting and reporting system is adequate for the: timely collection of receivables; escheating of

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unclaimed funds; reconciliation of balance sheet accounts to the subsidiary ledgers; and timely preparation and submittal of monthly bank reconciliation for the Inmate Trust Fund Account.

Effect:

Failure to timely collect amounts due from others increases the risk of amounts becoming uncollectible. In addition, failure to escheat unclaimed property may result in the assessment of interest and penalties. Failure to reconcile balance sheet accounts to subsidiary ledgers and prepare monthly bank reconciliation on a timely basis may result in the risk of errors and irregularities going undetected.

Recommendation:

Formal procedures should be developed and implemented to ensure the financial accounting and reporting system for the Inmate Trust Fund Account is adequate. At a minimum, procedures should require that:

- Collection efforts for amounts due from others are made in a timely manner. If initial efforts are unsuccessful, uncollectible amounts should be forwarded to the County Treasurer's Office;
- Unclaimed funds as of June 30th of each year are submitted by November 1st of each year to the State Comptroller or County Treasurer, as appropriate, in accordance with the escheat laws;
- Subsidiary ledgers are reconciled to the balance sheet accounts;
- Bank statements are reconciled in a timely manner;
- Bank reconciliations and supporting documentation are submitted to the County Auditor's Office before the tenth (10th) working day of the following month.
- Bank account activity is reviewed online on a daily basis in order to identify unauthorized transactions immediately;
- "ACH block", a fraud detection system, is implemented to prevent the processing of Automatic Clearing House debits and/or credits; and
- "Positive pay", a fraud detection system, is implemented to allow the processing of only properly authorized checks.

Management Response:

Management concurs. Remedial action will be taken upon further examination as to feasibility and cost effectiveness.

Target Date of Remedial Action:

October 31, 2007

Finding No. 8: Procedures are not in place to ensure that telephone commissions received are in compliance with the telephone service contract terms.

Condition:

We reviewed telephone commissions received during December 6, 2005 through May 31, 2007 to determine if commissions received were based on the commission calling rates stipulated in the contract between Hidalgo County and Evercom Systems, Inc. Telephone commissions

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received during the period in review totaled \$354,376.18 (local calls - \$223,001.01 and long distance calls - \$131,375.17). The results of our review revealed that:

- Monthly telephone revenues for local service were computed based on 58% of monthly gross billed revenues; however, the amounts computed was based on a \$2.25 local calling rate instead of the \$3.00 local calling rate as stipulated in the contract. As a result, Hidalgo County was underpaid a total of \$113,585.74 for the period in review. Evercom Systems, Inc. has been informed of the underpayment and has agreed to reimburse the county for the \$113,585.75. In addition, Evercom Systems, Inc. has agreed to change the local calling rate to \$3.00; and
- Monthly telephone revenues for long distance service were paid in accordance with the fifty eight percent (58%) commission rate as stipulated in the contract.

Criteria:

Hidalgo County entered into a two-year contract on December 6, 2005 with Evercom Systems Inc. to provide telephone service to inmates. The contract stipulates that Hidalgo County will receive telephone commissions based on a percentage of the monthly gross billed telephone revenues as follows:

- Monthly telephone revenues for local service: fifty eight percent (58%) of monthly gross billed revenues from all installed telephones based on a flat local calling rate of \$3.00; and
- Monthly telephone revenues for long distance service: fifty eight percent (58%) of the total amount of long distance services.

Cause:

Procedures have not been implemented to ensure that telephone commissions received are in compliance with the contract terms.

Effect:

Failure to ensure that the correct amount of telephone commissions is received may result in the loss of county revenues.

Recommendation:

Procedures should be developed and implemented to ensure that telephone commissions received are in compliance with the telephone service contract terms. At a minimum, an individual should be assigned the responsibility of reviewing compliance with the contract.

Management Response:

Management concurs. Sheriff's Office financial staff have already taken steps to assure that telephone commissions received are in compliance with contract terms. All reports submitted with the commissions will be audited by staff to determine method of tabulation and assure all tabulations are in compliance with contract terms.

Target Date of Remedial Action:

August 23, 2007

OBJECTIVES, SCOPE, AND METHODOLOGY

Objective:

We have completed an audit of the Sheriff's Jail Commissary and Inmate Trust Fund Account for the year ended December 31, 2006, in accordance with Local Government Code §351.0415, §115.001, and our annual audit plan. The objectives of our audit were to determine whether:

1. Expenses made from Jail Commissary funds were properly accounted and made in compliance with Local Government Code §351.0415; and
2. Collections and disbursements in the Inmate Trust Fund Account were properly accounted and recorded.

Scope:

The scope of our review was limited to randomly selected transactions for the year ended December 31, 2006. Our audit was not designed nor intended to be a detailed study of every relevant internal control system, procedure, or transaction. Accordingly, the opportunities for improvement presented in this report may not be all-inclusive of areas where improvement could be made. The responsibility for sound internal controls rests with management.

During the course of our audit, we noted one finding outside of the audit scope that due to its importance merits inclusion in the report. The finding is related to the underpayment of telephone commissions during the period of December 6, 2005 through May 31, 2007.

Methodology:

In planning and performing our audit, we conducted interviews with the staff of the Sheriff's Office, prepared flowcharts of the major operations, and reviewed applicable statutes, regulations, contracts, rules, policies, and procedures. The following procedures were performed:

- Reviewed randomly selected paid invoices to determine if expenses were made in compliance with Local Government Code §351.0415.
- Reviewed randomly selected welfare kit transactions to determine if the kits had been distributed to eligible inmates.
- Reviewed the procedures in place for the accounting and safeguarding of movie videos purchased for the recreation of inmates.
- Reviewed daily sales reports to determine if sales were deposited to the Jail Commissary bank account and to determine if inmate individual accounts were reduced by the amount of daily sales made to the inmate.
- Conducted a physical merchandise inventory count to determine if the inventory quantities per *Ableterm* agreed to the quantities held on hand by the Jail Commissary.
- Reviewed the "Jail Commissary Inventory Report" generated through *Ableterm* to determine if sales tax was properly collected.
- Reviewed financial statements for the Jail Commissary and Inmate Trust Fund Account.
- Reviewed telephone commissions received to determine if commissions received were based on the commission calling rates stipulated in the contract between Hidalgo County and Evercom Systems, Inc.