

**Improved Recordkeeping Practices
are Needed to Ensure Accountability
Over Inmate Trust Funds**

October 2012

**Milwaukee County Office of the Comptroller
Audit Services Division**

**Scott B. Manske
Milwaukee County Comptroller**



**Jerome J. Heer, Director of Audits
Douglas C. Jenkins, Deputy Director of Audits**

Audit Team

Paul A. Grant, CPA
James D. Felde, CPA, CFE
Joseph G. Williams, CIA
Diana Xiong

Review Team

Jere A. Trudeau
Douglas C. Jenkins

Administrative Support

Cheryl A. Hosp



Office of the Comptroller
Audit Services Division

Milwaukee County

Scott B. Manske
Jerome J. Heer
Douglas C. Jenkins

- Milwaukee County Comptroller
- Director of Audits
- Deputy Director of Audits

October 18, 2012

To the Honorable Chairwoman
of the Board of Supervisors
of the County of Milwaukee

We have completed an audit of the Milwaukee County Office of the Sheriff's administration of inmate trust account funds. As described in the attached audit report, Office of the Sheriff internal records for inmate trust accounts cannot be reconciled to bank account balances. In its current state, short of performing a transaction-by-transaction reconstruction of account activity potentially extending back several years, the Office of the Sheriff inmate trust accounts are virtually unauditible.

Further, during our review, it came to our attention that the Office of the Sheriff is not in compliance with Wisconsin State Statute s. 59.66, governing the administration of unclaimed funds. Data confirms that unclaimed inmate trust balances under \$25 were retained in the Office of the Sheriff's general operations fund, rather than reported to the County Treasurer in accordance with State law.

The report provides recommendations to address specific issues noted during the audit.

A response from the Office of the Sheriff is included as **Exhibit 2**. We appreciate the cooperation extended by Office of the Sheriff management and staff during the course of this audit.

Please refer this report to the Committee on Finance, Personnel and Audit.

Jerome J. Heer
Director of Audits

JJH/DCJ/cah

Attachment

cc: Scott B. Manske, Milwaukee County Comptroller
Milwaukee County Board of Supervisors
Chris Abele, Milwaukee County Executive
Patrick Farley, Director, Department of Administrative Services
Kelly Bablitch, Chief of Staff, County Board Staff
Craig Kammholz, Fiscal & Budget Administrator, DAS
Steve Cady, Fiscal & Budget Analyst, County Board Staff
Carol Mueller, Chief Committee Clerk, County Board Staff

Improved Recordkeeping Practices are Needed to Ensure Accountability Over Inmate Trust Funds

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Summary

The Detention Services Bureau of the Milwaukee County Office of the Sheriff operates two secure detention facilities, County Correctional Facility–Central (CCF–Central) and County Correctional Facility–South (CCF–South). The Office of the Sheriff administers a trust account function to hold and account for funds belonging to inmates. These funds are available for miscellaneous inmate purchases at the correctional facilities and payment of certain fees imposed during incarceration, including charges associated with participation in the Huber program.

We initiated this review of the Office of the Sheriff’s inmate trust account administration due to a repeated recommendation by the County’s external audit firm to strengthen internal controls in this area and additional concerns regarding internal controls identified as a result of our monthly bank reconciliation process.

Office of the Sheriff internal records for inmate trust accounts cannot be reconciled to bank account balances.

The County’s external audit firm of Baker Tilly Virchow Krause, LLP (Baker Tilly) commented specifically in its annual Report on Internal Control that for each of the years 2007–2009, and generally in 2010, that activity associated with inmate trust accounts was not regularly posted or reconciled to the County’s financial accounting system (Advantage). Our independent bank reconciliation process identified ‘red flags’ with the recording of inmate trust account transactions. In particular, we noted that for an extended period of time, Office of the Sheriff fiscal staff was not recording bank deposit activity on transaction registers (the equivalent of personal checkbook registers). Office of the Sheriff fiscal staff were notified by the Audit Services Division, on a monthly basis, of the growing level of unrecorded deposits. Yet unrecorded deposits exceeded \$1.8 million at one point. It was apparent that the Office of Sheriff’s fiscal staff was not properly monitoring the bank balance because the account was overdrawn on two occasions—in the amount of \$16,219 in one instance and by \$135,535 in another.

Individual inmates’ subsidiary records are not reconciled to the County’s accounting system or to the overall bank account balance.

The detailed accounting required to keep track of individual inmate financial transactions and balances is performed using a specialized software system developed by the firm of Correctional Computers of Wisconsin (CCW). Prior to February 2012, three checking accounts, one each for

CCF–Central, CCF–South and the Huber work release program, along with corresponding separate CCW system databases, were used in the administration of the inmate trust account function.

Subsequent to the consolidation of the multiple bank accounts and CCW databases earlier this year, the Office of the Sheriff began providing timely and complete transaction registers. However, current Office of the Sheriff fiscal staff could not locate any documentation of, nor recall any instances when, the detailed (subsidiary) inmate records maintained on the CCW system were reconciled to either the County's Advantage system or to the trust account bank balances. The individual inmate balances on the CCW system contain the detailed transactions that should, in aggregate, agree with the Advantage system and bank balances. The absence of a reconciliation verifying this agreement presents the opportunity for errors, omissions and abuses to occur without detection.

We attempted to perform a 'high level' reconciliation (i.e., reconciling various categories of transactions as opposed to individual transactions) as of March 7, 2012, and initially found that the bank balance was approximately \$420,000 more than what the records in the CCW system indicated it should be. However, we subsequently learned that approximately \$962,000 in account balances recorded as belonging to inmates prior to 2010 were not retained when separate databases for CCF–Central inmates and CCF–South inmates were merged earlier this year. It is currently unclear to what extent the \$962,000 represents legitimate demands on the \$420,000 discrepancy (an apparent cash surplus) we initially identified. A detailed review of all these accounts will have to be undertaken to resolve this matter.

We also found that a number of checks written to transfer funds from the inmate trust account to the Office of the Sheriff's operating revenue account were not issued until substantial periods of time after the corresponding fees were recorded as having been collected from inmates. For instance, payment to the Office of the Sheriff's general account covering inmate phone card purchases for all of 2011 was made with a single check issued in March 2012 and there were delays of up to four months in writing checks for board and electronic surveillance fees after collection from inmates. These delays suggest that an accounting backlog is a contributing factor to the discrepancy. We also noted that a number of these checks and others, while issued in June 2011, were not deposited in the Office of the Sheriff's operating revenue account until up to six months later.

Although our reconciliation initially showed the bank balance appeared to be significantly higher than the supporting records indicate, this should not be viewed as a positive condition. Rather, the apparent 'surplus' of funds is an indication that:

- Money from non-trust related sources was inadvertently deposited to the account;
- Inmate deposits have not been properly recorded in the CCW system;
- Money owed from the trust account has not been properly deducted; or
- Other errors, omissions or potential abuses are buried within the detail of the records.

Because of these concerns, we identified a strategy for uncovering errors and instances of misappropriation of Inmate Trust funds. However, our efforts were significantly limited due to missing data elements, typically included in data files, that would electronically link inmates with payee names and addresses. Further, we noted that information fields used for storing names and addresses did not utilize standard formatting criteria, compounding the issue. As a result, we were unable to conduct meaningful searches for suspicious transactions, except for our review of unusually large transactions, where no signs of errors or misappropriation were detected.

Additional opportunities for strengthening internal controls and improving efficiency.

We identified a few ancillary issues that if addressed, would strengthen internal controls and provide opportunities for efficiencies. These include:

- Lack of a policy and procedures manual that covers all material aspects of administering the inmate trust account.
- Limitations in standard reports generated by the CCW system. They do not allow for querying and sorting historical transaction level detail that would be useful for performing electronic searches to identify and analyze unusual transactions and potential errors.
- Poor attention to controls designed to restrict the number of individuals authorized to execute transactions from the inmate trust accounts. Of the 25 individuals authorized to sign checks and/or execute wire transfers, seven are no longer employed by Milwaukee County; one now works in the Department of Transportation; and two have undergone name changes.
- A policy of refunding inmate trust balances owed to former inmates upon release solely by check, regardless of the amount owed. Among checks written during the months of March, April and May 2012, a total of 356 checks were issued for less than \$10. Within this group, 115 checks were issued for amounts under \$1, including 19 checks for 10 cents or less and in one instance, a check was written for two cents. This requires administrative resources for tracking the high proportion of nominal checks that are never cashed.

The Office of the Sheriff is not in compliance with state law governing unclaimed funds.

During our review, it came to our attention that the Office of the Sheriff is not in compliance with Wisconsin State Statute s. 59.66, governing the administration of unclaimed funds. Data confirms that unclaimed inmate trust balances under \$25 were retained in the Office of the Sheriff's general operations fund, rather than reported to the County Treasurer in accordance with State law. The County Treasurer's Office identified this problem and corrective measures were taken for unclaimed funds in amounts of \$10 or more. However, apparently based on a misreading of s. 59.66, the Office of the Sheriff has retained unclaimed inmate trust funds in amount of less than \$10. Further, we learned that during the period 2002 through 2009 no unclaimed inmate trust fund balances of any size on record at the CCF—Central were reported or transferred from the Office of the Sheriff to the County Treasurer's Office.

This report contains recommendations to address each of the issues identified. A management response from the Office of the Sheriff is included as **Exhibit 2**. We wish to acknowledge the cooperation of the Office of the Sheriff management and staff during this audit.

Background

The Detention Services Bureau of the Milwaukee County Office of the Sheriff operates two secure detention facilities. County Correctional Facility–Central (CCF–Central), with a 960 bed capacity, is utilized for holding accused offenders until they are released on a pretrial basis or adjudicated, and a small number of sentenced offenders awaiting transfers or hearings on new charges. County Correctional Facility–South (CCF–South), with a 2,340 bed capacity, maintains custody of all sentenced inmates in Milwaukee County committed for periods not exceeding one year and from other jurisdictions as authorized by County ordinance. The Sheriff has the authority to transfer inmates between the two institutions in order to maximize the use of available beds.

The Bureau’s Electronic Monitoring Unit (EMU) also oversees the Huber work-release program (Huber program) housed at CCF–South and a home detention program for inmates.

The 2012 budget for the Detention Services Bureau includes 962 funded positions, with expenditures of \$110.6 million, revenue of \$10.1 million and tax levy support of about \$100.5 million. These budget figures are based on a total inmate population of 2,850, with projected average daily inmate censuses of 900 inmates at CCF–Central, 1,700 at CCF–South and 250 on home detention.

Among the multitude of responsibilities involved with operation of the correctional facilities, the Office of the Sheriff administers a trust account function to hold and account for funds belonging to inmates. These funds are available for miscellaneous inmate purchases at the correctional facilities and payment of certain fees imposed during incarceration, including charges associated with participation in the Huber program.

We initiated this review of the Office of the Sheriff’s inmate trust account administration due to a recommendation, repeated annually by the County’s external audit firm, to strengthen internal controls in this area and additional concerns regarding internal controls identified as a result of our monthly bank reconciliation process.

Overview of the Inmate Trust Account Function

The Office of the Sheriff maintains a congregate checking account to hold inmate owned funds in trust. All deposit and expenditure transactions involving inmate funds flow through this bank account. Sources of inmate funds include money deposited by a family member or friend of an

inmate on-site at either the CCF–C or CCF–S, or with an electronic funds transfer using a third party fiscal agent. Other sources of deposits include money found in possession of an inmate at time of arrest as well as funds from inmates transferred from other correctional facilities.

Inmates are able to use available funds to acquire items at the canteen, purchase phone credits, post bail, etc. Inmate funds are also used for payment of certain fees charged during incarceration, such as medical co-pays, electronic monitoring, and room and board for inmates held under the Huber program.

The detailed accounting required to keep track of individual inmate financial transactions and balances is performed using a specialized software system developed by the firm of Correctional Computers of Wisconsin (CCW). Since administration of the inmate trust account is a function within the Office of the Sheriff Fiscal and Budget Office, staff time devoted to the function is not segregated from other fiscal duties. Until recently, a total of seven Office of the Sheriff fiscal staff at the CCF–South spent a significant portion of their time (estimated to total approximately five Full Time Equivalent positions) administering inmate trust account funds on a regular basis. Currently, five fiscal staff (estimated to total approximately four Full Time Equivalent positions) assumes this workload and the Office of the Sheriff is actively recruiting to fill an additional full time position for this purpose. In addition, six cashiers at the CCF–Central spend a portion of their time receipting and recording deposits into the inmate trust account on an around-the-clock basis.

Section 1: Office of the Sheriff internal records for inmate trust funds cannot be reconciled to bank account balances.

The County's external audit firm commented that for each of the years 2007-2010 activity associated with inmate trust accounts was not regularly posted or reconciled to the Advantage accounting system.

The County's external audit firm of Baker Tilly Virchow Krause, LLP (Baker Tilly) commented specifically in its annual Report on Internal Control that for each of the years 2007–2009, and generally in 2010, that activity associated with inmate trust accounts was not regularly posted or reconciled to the Advantage accounting system. Baker Tilly's standing recommendation for these years was that this should be done by the Office of the Sheriff on a monthly or quarterly basis to ensure accurate reporting of cash on hand.

In the second half of 2011, the Central Accounting Division (formerly part of the Department of Administrative Services and now under the Office of the Comptroller) assisted the Office of the Sheriff fiscal staff with developing procedures to facilitate monthly posting of inmate trust account activity to update the Advantage system. However, activity associated with one of the three bank accounts was being incorrectly posted to an unrelated cash account on the Advantage system. Office of the Sheriff fiscal staff was made aware of this problem and we were told that necessary corrections will be made.

Implementation of these corrections should bring the cash balances reported on the Advantage system into agreement with the corresponding trust account bank balances. However, we learned that no reconciliation of the Office of the Sheriff's detailed subsidiary accounting records supporting inmate account balances is performed, discussed later in this report.

Our independent bank reconciliation process identified 'red flags' with the recording of inmate trust account transactions.

In the course of our bank reconciliation process, we identified a number of concerns in regard to the handling of inmate account transactions by the Office of the Sheriff.

In concert with the necessity for the Office of the Sheriff to regularly post and reconcile account activity to the Advantage system, our office performs routine monthly bank reconciliations of the inmate trust account, as well as all other bank accounts held by Milwaukee County. The objective of performing bank reconciliations of the inmate trust account is to identify variances between transactions initiated by the Office of the Sheriff with those processed by the bank. Office of the Sheriff staff and bank representatives are informed of errors and other reconciling items requiring adjustment or correction. Ultimately, this process helps safeguard against fraud, errors and other unauthorized transactions.

While bank records reflected the fact that monies totaling more than \$1.8 million were in fact deposited into the Huber bank account, the Office of the Sheriff's internal accounting records did not reflect those deposits.

In the course of our bank reconciliation process, we identified a number of concerns regarding the handling of inmate account transactions by the Office of the Sheriff. In particular, we noted that for an extended period of time, Office of the Sheriff fiscal staff was not recording bank deposit activity on transaction registers (the equivalent of personal checkbook registers) associated with a bank account used for inmates on the Huber work release program. Office of the Sheriff fiscal staff was notified by the Audit Services Division, on a monthly basis, of the growing level of unrecorded deposits. Yet unrecorded deposits exceeded \$1.8 million at one point. Therefore, while bank records reflected the fact that monies totaling more than \$1.8 million at one point were in fact deposited into the Huber bank account, the Office of the Sheriff's internal accounting records did not reflect those deposits. It was apparent that the Office of the Sheriff fiscal staff was not properly monitoring the bank balance because the account was overdrawn on two occasions—in the amount of \$16,219 in one instance and by \$135,535 in another.

We initially met with Office of the Sheriff fiscal staff at the end of March 2011 to discuss our concerns with administration of the inmate trust accounts. According to Office of the Sheriff

management, there were a number of reasons that led to this problem, including staffing issues and the need to deploy fiscal resources to assist with the consolidation of inmate trust transactions into one bank account and the merging of two inmate databases. Prior to February 2012, three checking accounts, one each for CCF–Central, CCF–South and the Huber work release program, along with corresponding separate CCW system databases, were used in the administration of the inmate trust account function. This was a carryover since before the House of Correction (now the CCF–South) was merged into the Office of the Sheriff in 2009.

Office of the Sheriff fiscal staff explained that the overdrawn accounts occurred when staff stopped separating inmate trust account deposits into separate accounts for the CCF–Central and CCF–South inmates, respectively. While it was intended that the separate accounts would be merged, deposits were being placed in one account, while checks continued to be drawn from three accounts. Office of the Sheriff fiscal staff indicated the accounts and the CCW system databases were being merged, and requested time to complete and test the merged system before we conducted a review. We agreed with this approach and postponed a formal review until earlier this year.

Individual inmates’ subsidiary records are not reconciled to the County’s Advantage accounting system or to the overall bank account balance.

Subsequent to the merger of the multiple bank accounts and CCW databases earlier this year, the Office of the Sheriff began providing timely and complete transaction registers to the Audit Services Division’s Bank Reconciliation unit. However, current Office of the Sheriff fiscal staff could not locate any documentation of, nor recall any instances when, the detailed (subsidiary) inmate records maintained on the CCW system were reconciled to either the County’s Advantage system or to the trust fund bank balances. The individual inmate accounts maintained on the CCW system contain the detailed transactions

that should, in aggregate, agree with the Advantage system and bank balances. The absence of a reconciliation verifying this agreement presents the opportunity for errors, omissions and abuses to occur without detection.

There were other factors that exacerbated the risk of fraud and/or undetected errors regarding the inmate funds and that eventually led to the creation of a significant discrepancy between the detailed accounting records and the bank account. These include the combination of delays in posting transactions, instances of overdrawn bank balances, and processing of inmate trust account transactions in an environment where reconciliations aren't performed between the detailed accounting records and the bank account.

We performed a 'high level' reconciliation as of March 7, 2012, and initially found that the bank balance was approximately \$420,000 more than what the records in the CCW system indicate it should be.

To determine the magnitude of this discrepancy we performed a 'high level' reconciliation (i.e., reconciling various categories of transactions as opposed to individual transactions) as of March 7, 2012, and initially found that the bank balance was approximately \$420,000 more than what the records in the CCW system indicate it should be.

However, we subsequently learned that approximately \$962,000 in account balances recorded as belonging to inmates prior to 2010 were not retained when separate databases for CCF-Central inmates and CCF-South inmates were merged earlier this year. *[Note: See page 15 of this report for additional details on this matter.]* It is currently unclear to what extent the \$962,000 represents legitimate demands on the \$420,000 discrepancy (an apparent cash surplus) we initially identified.

In late September of this year, the former Fiscal Administrator for the Office of the Sheriff provided the following explanation for the discrepancy:

“The Sheriff’s fiscal office is in the process of switching from two separate inmate trust accounts to a single combined trust account. The transition has taken much longer than expected due to competing priorities and retirements. [*There were actually three separate inmate trust accounts that were combined.]*

Previously, the responsibility of all trust accounting resided with the Accountant 3 in the Safety Building fiscal office. After this individual retired, we became aware that complete reconciliations of the trust accounts were not being performed.

We have now separated the responsibility for trust accounting between two Accountant 3 positions. Inmate trust accounting is now assigned to the Accountant 3 at the CCFS and other trust accounting is now assigned to the Accountant 3 at the Safety Building.

In addition, there has been a significant amount of turnover in the staff assigned to Huber and home detention inmate trust accounting. This has resulted in staff not understanding the calculations required for determining the amount of inmate board revenue that should be turned over to the County Treasurer each month. (Inmates in these programs are charged each day whether they have funds or not. If the inmate had funds, the revenue was correctly identified but if an inmate did not initially have funds but later funds were collected, the revenue was not correctly calculated. In addition, credit entries which were actually adjustments to receivables were subtracted from revenue in error.)

The result of the under reporting of revenue is excess funds in the inmate trust account.”

We concluded that there are likely additional explanations for the large discrepancy, including:

- A backlog in payment of items already deducted from inmate accounts on the CCW system.
- The accounting associated with the inmate trust accounts have been in such a state of disarray that fiscal staff has lost track of transaction items that should have been recorded long ago.
- Data integrity issues within the CCW system existing prior to, or occurring coincident with, the merger of the individual systems. Since there were no reconciliations of this type

performed prior to or after the merger, there is no assurance that the system data correctly accounted for all inmate funds at any given time. *[Note: See page 15 of this report for additional information on this issue.]*

A number of checks written to transfer funds from the inmate trust account to the Office of the Sheriff's operating revenue account were not issued until long after the corresponding fees had been collected from inmates.

In fact, we identified a number of checks written to transfer inmate fee revenue from the inmate trust account to the Office of the Sheriff general operations account that were not issued until long after the corresponding fees had been collected from inmates. For instance, payment to the Sheriff's operating revenue account covering inmate phone card purchases for all of 2011 was made with a single check issued in March 2012 and there were delays of up to four months in writing checks for Huber board and electronic surveillance fees after collection from inmates. These delays suggest that an accounting backlog is a contributing factor to the discrepancy. We also noted that a number of these checks and others, while issued in June 2011, were not deposited in the Office of the Sheriff's operating revenue account until up to six months later.

Aside from increasing the risk of theft and errors, significant delays in the issuance and deposit of checks and recording of transactions distorts the true balance of the Sheriff's revenue accounts, which when compared with budgetary figures, may lead to the false conclusion that there is a surplus or deficit anticipated in a given account.

It is also important to note that, although our reconciliation initially showed the bank balance appeared to be significantly higher than the supporting records indicate, this should not be viewed as a positive condition. Rather, the apparent 'surplus' of funds can also be an indication that:

- Money from non-trust related sources was inadvertently deposited to the account;
- Inmate deposits have not been properly recorded in the CCW system;

- Money owed from the trust account has not been properly deducted; or
- Other errors, omissions or potential abuses are buried within the detail of the records.

Recognizing the increased susceptibility of inmate funds to errors and misappropriation, we selected inmate trust account disbursement transactions occurring during 2011 and through August 24, 2012 to test for indications of this type of activity.

Because of these concerns, we identified a strategy generally used for uncovering errors and instances of misappropriation in this area involves the analysis of electronic disbursement data, sorted to highlight instances where multiple payments were made to the same individual or mailed to the same address, as well as payments for unusually large amounts. Any suspicious cases would be investigated by reviewing associated documentation to determine whether or not the transactions were legitimate and properly authorized by inmates.

However, our efforts were significantly limited due to missing data elements, typically included in data files, that would electronically link inmates with payee names and addresses. Further, we noted that information fields used for storing names and addresses did not utilize standard formatting criteria, compounding the issue. As a result, we were unable to conduct meaningful searches for suspicious transactions, except for our review of unusually large transactions, where no signs of errors or misappropriation were detected.

We also compared the names and addresses of all 25 individuals shown by bank records as being authorized to sign checks or execute electronic fund transfers associated with inmate trust bank accounts to payee data. The comparison was to determine if payments were made directly to any of the authorized signors. We found no matches as a result of these

tests. However, we did note that of the 25 authorized individuals:

- Seven are no longer employed by Milwaukee County.
- One now works in the Department of Transportation.
- Two have undergone name changes.

Authorization to execute bank transactions should be cancelled for any individuals who no longer work in the Office of the Sheriff to prevent access to funds. Additionally, authorizations should be updated to reflect employee name changes.

Further, in reviewing the bank documents for authorized signors, we discovered that the individual currently executing wire transfers between the inmate trust bank accounts has not been formally authorized to do so. This reflects poorly on the bank's adherence to its own internal control protocols. The bank has acknowledged this error and taken corrective measures.

We also noted that only one authorizing signature is required to execute bank transactions related to inmate trust accounts, regardless of the size of the transaction. For instance, individual checks of \$400,000, \$450,000 and \$500,000 were processed with only one authorizing signature. Establishing a dollar threshold at which a dual-signature requirement is employed is a common and effective control to deter misappropriations of funds.

Additionally, based on the nature of positions held by employees authorized to sign checks or execute electronic fund transfers, we are concerned that at least some of these individuals may also be performing accounting associated with the inmate trust accounts. This scenario places staff members in the position of having access to inmate trust funds and also being able to conceal instances of theft by falsifying accounting records.

Additional administrative effort is necessary to resolve the discrepancy between the Inmate Trust Fund bank balance and subsidiary inmate accounts.

Certain factors limit our ability to identify the origin(s) of the initial \$420,000 discrepancy between the bank balance and CCW subsidiary ledger total for the inmate trust account. One factor is the lack of a definitive starting point from which to trace account activity. Since current Office of the Sheriff fiscal staff could not locate any document indicating a reconciliation of the inmate trust account at the subsidiary level has ever been performed, no prior period can be identified when the account was known to be in balance.

Records associated with inmate balances totaling approximately \$962,000 were not included in the merger of CCW databases earlier this year.

Further, after persistent inquiries regarding the basis and supporting documentation for two checks in large, round-dollar amounts (\$500,000 and \$450,000), we were informed that records associated with inmate balances totaling approximately \$962,000 were not included in the merger of CCW databases earlier this year. According to the Office of the Sheriff's newly hired Accounting Manager, his preliminary analysis indicates these records are associated with inmates released prior to 2010. He speculated that it is likely a substantial portion of the \$962,000 had been paid out to former inmates but not posted to the accounting records. This speculation is based on the fact that since the balances shown for about 270 of the individuals are for amounts of at least \$500, it seems likely that a number of complaints would have been voiced had the payments not been made. Despite this assumption, a detailed review of all these accounts will have to be undertaken to resolve this matter.

Depending on the extent that individual balances included in the \$962,000 represent funds still owed to former inmates, the discrepancy between the bank balance and the total of the detailed inmate balances could instead indicate a significant shortage of cash.

In its current state, short of performing a transaction-by-transaction reconstruction of account activity potentially extending back several years, the Office of the Sheriff inmate trust accounts are virtually unauditable.

Recommendations

To maintain proper accounting, budgetary management and internal controls associated with the inmate trust account, we recommend that Office of the Sheriff management implement procedures to:

1. *Process all accounting transactions, including issuance of checks to transfer funds to Office of the Treasurer accounts, as well as the deposit of cash receipts, in a timely manner. Such transactions should be processed at least monthly.*
2. *Correctly post inmate trust account activity to the Advantage accounting system and perform reconciliations between the CCW system and Advantage monthly.*
3. *Establish a dollar threshold for employing a dual-signature requirement to authorize inmate trust fund transactions.*
4. *Segregate responsibilities among staff for signing checks and/or executing electronic fund transfers from those involved with the accounting/recording of these transactions. Provide the banks with updated authorizations which reflect only those individuals that should be signing checks and executing electronic transfers and, going forward, update the applicable bank(s) concurrent with changes.*
5. *Perform a detailed reconciliation between the CCW system and the inmate trust bank account to identify and analyze the factors underlying the large discrepancy and ultimately, make the adjusting entries necessary to bring the two back into balance.*

Office of the Sheriff fiscal staff indicated that they are working diligently to reconstruct and reconcile inmate trust account activity with the bank account balance, as well as with the Advantage system, in the near future.

Section 2: Additional opportunities for strengthening internal controls and improving efficiency.

In the course of reviewing the internal control issues that prompted us to initiate this audit, we identified a few ancillary issues that if addressed, would strengthen internal controls and provide opportunities for efficiencies.

Below is a brief description of each of these issues, followed by a list of our recommendations.

There is no policies and procedures manual associated with inmate trust account administration.

Policies and Procedures Manual

In our discussions with Office of the Sheriff fiscal staff, we learned there is no policies and procedures (P&P) manual associated with inmate trust account administration. Generally, the compilation of policies and procedures contained in a P&P manual would provide the basis and direction for carrying out the various responsibilities associated with any organizational unit, function, or program.

As such, the P&P manual serves as management's framework of internal control, setting forth what is required to be done, as well as describing how, when and by whom, various responsibilities and duties should be performed. The P&P manual is key in providing guidance, and in the training and cross-training of staff.

CCW System Limitations

To assist in our reconciliation of the inmate balances maintained on the CCW system to the bank account balance, we requested a download of detailed transactional data from the CCW system. According to Office of the Sheriff fiscal staff, a CCW representative indicated that detailed historical data is not readily available without initiating program changes. Instead, we were advised to use a standard report of inmates' account balances, which provides a snapshot of individual balances.

We were not able to perform any electronic searches to identify and analyze unusual transactions and potential errors.

Although the summarized data contained in the standard report was sufficient for the purpose of performing our reconciliation, the reports do not contain transaction level detail. Consequently, we were not able to perform any electronic searches to identify and analyze unusual transactions and potential errors.

Beyond the lack of detailed electronic CCW system data in regard to our review, the availability of the transaction level data could prove helpful in performing the previously recommended monthly account reconciliations of the CCW system, and to flag potential errors, irregularities and problems with the data.

Payout of Inmate Funds Subsequent to Release

We noticed that among the payout checks several were written for nominal amounts.

According to Office of the Sheriff fiscal staff, all payouts of inmate funds are made by mailing checks within two weeks following release. We noticed that among the payout checks several were written for nominal amounts. Among checks written during the months of March, April and May 2012, a total of 356 checks were issued for less than \$10. Within this group, 115 checks were issued for amounts under \$1, including 19 checks for 10 cents or less and in one instance, a check was written for two cents.

While we did not develop a formal estimate of the costs associated with issuing the checks, it is clear that check stock, envelopes and postage are required. In addition, administrative resources are expended on tracking the high proportion of nominal checks that are never cashed.

Office of the Sheriff fiscal staff informed us that prior to 2012 the practice was to make payouts in cash if the amount owed to the former inmate was less than \$25. With proper disbursement controls, this process would appear to be more administratively efficient in the long run.

During our review, it came to our attention that the Office of the Sheriff is not in compliance with Wisconsin State Statute s. 59.66, which requires that all funds not claimed for at least one year be reported to the County Treasurer on or before January 10 of every odd-numbered year. We noted the following instances of non-compliance:

- \$93,150 in unclaimed funds from former inmates at the CCF—South during the years 2000 through 2007 were not reported to the County Treasurer’s Office timely. The Office of the Sheriff reported and transferred unclaimed funds in the amounts of \$25 and greater to the Treasurer in January 2011. However, upon receipt of the list of unclaimed funds \$25 and greater, the County Treasurer informed the Office of the Sheriff that all funds greater than \$10 needed to be published. As a result, the Office of the Sheriff provided a list of unclaimed funds in accounts of at least \$10 up to \$25 and transferred the funds to the County Treasurer’s Office in April 2011. The Office of the Sheriff retained unclaimed inmate trust funds in amounts less than \$10. It should be noted that according to s. 59.66 of the Wisconsin Statutes, the County Treasurer is not required to publish unclaimed funds under \$10, but the statute clearly states that all amounts, including those under \$10, are to be reported and ultimately transferred to the County Treasurer's Office.

According to a former Office of the Sheriff fiscal staff member, the practice of retaining unclaimed funds less than \$25 was initiated after consulting with the current County Treasurer’s predecessor some years ago. The former fiscal staff member said it was decided not to invest the time and resources necessary to identify the thousands of unclaimed funds less than \$25.

- Other than the April 2011 transfer of funds of at least \$10 up to \$25, the Office of the Sheriff has not reported or transferred any unclaimed funds of less than \$25 for many years. For example, the Office of the Sheriff transferred \$57,738 of unclaimed funds (ranging from \$0.01 to \$24.99) to its revenue account in September 2009 and \$10,523 in December 2010. These funds have been retained by the Office of the Sheriff as revenue.
- \$71,406 in unclaimed funds from former inmates at the CCF—Central during the years 2002 through 2009 have not been reported nor transferred to the County Treasurer’s Office as of this writing. During this period, no unclaimed

inmate trust fund balances of any size on record at the CCF—Central were reported or transferred from the Office of the Sheriff to the County Treasurer's Office.

Recommendations

To improve internal controls and efficiencies associated with inmate trust account administration and to comply with state law regarding unclaimed funds, we recommend Office of the Sheriff management:

6. *Develop a written policies and procedures manual that covers all material aspects of administering the inmate trust account function.*
7. *Work with the CCW system vendor to develop the ability to extract detailed historical data from the system for use in performing monthly reconciliations and to flag potential errors and irregularities.*
8. *Consider resumption of cash payouts of inmate trust balances below \$25, or some other reasonable dollar threshold, at the time of release and return of other personal property to inmates.*
9. *Report and transfer all unclaimed funds, regardless of the dollar amount, from inmate trust fund balances at both the CCF—South and CCF—Central facilities to the County Treasurer's Office on a timely basis.*
10. *Consult with Corporation Counsel as to whether past unclaimed funds of at least \$10 and up to \$25 that have not previously been reported to the Office of the County Treasurer and published must now be published.*

Audit Scope

This audit was conducted as part of the Office of the Comptroller's efforts to monitor and improve Milwaukee County's system of internal controls. The objective of this audit was to review internal controls relating to the Office of the Sheriff's inmate trust account administration.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We limited our review to the areas specified in this Scope Section. During the course of the audit, we:

- Reviewed inmate trust account balances, bank accounts, and financial transactions relating to these accounts, including unclaimed inmate trust funds.
- Interviewed current and former Milwaukee County Office of the Sheriff staff.
- Interviewed Office of the Treasurer staff.
- Reviewed staff procedures related to collection of funds for deposit to inmate trust accounts.
- Conducted internet research related to internal control over inmate funds.
- Performed tests to determine whether inmate cash on hand reported on the Advantage accounting system agreed with the amount of available cash in the inmate trust bank account.
- Attempted to reconcile the total of inmates' balances maintained on the CCW system to the inmate trust bank account.
- Reviewed Wisconsin Statute s. 59.66 pertaining to unclaimed funds.
- Examined bank records showing individuals authorized to sign checks or execute electronic funds transactions involving Office of the Sheriff inmate trust accounts.

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David A. Clarke Jr.
Sheriff

County of Milwaukee

Office of the Sheriff

DATE: October 17, 2012

TO: Jerome J. Heer, Director of Audits

FROM: Edward H. Bailey, Inspector, Milwaukee County Office of the Sheriff

SUBJECT: **Response to the Milwaukee County Office of the Comptroller Audit Services Division's review of Milwaukee County Office of the Sheriff's Recordkeeping Practices Over Inmate Trust Funds**

The Office of the Sheriff has reviewed the Milwaukee County Office of the Sheriff's Recordkeeping Practices Over Inmate Trust Funds document as prepared by the Milwaukee County Office of the Comptroller Audit Services Division and has included responses to recommendations by the Audit Services Division below.

Recommendation #1 – Process all accounting transactions, including issuance of checks to transfer funds to Office of the Treasurer accounts, as well as the deposit of cash receipts, in a timely manner. Such transactions should be processed at least monthly.

The Office of the Sheriff will comply. Previously there were three inmate trust account systems, each with its own checking account. Due to a significant amount of staff turnover assigned to Huber and Home Detention trust accounting the checkbook registers were not maintained as current as required. In February 2012 the three inmate trusts were merged into one and all accounting transactions including issuance of checks to transfer funds and the deposit of cash receipts are now being recorded and processed in a timely manner.

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Recommendation #2 – Correctly post inmate trust account activity to the Advantage accounting system and perform reconciliations between the CCW system and Advantage monthly.

The Office of the Sheriff will comply. Responsibility for trust accounting has been separated between two Accountant 3 positions. Inmate trust accounting including detention, Huber and electronic monitoring has been assigned to the Accountant 3 at the CCF-S and the other trust accounting assigned to the Accountant 3 at the Safety Building. Each individual is responsible for and is posting inmate trust account activity to the Advantage system monthly. As the recommendations of this report are implemented, monthly reconciliation of the CCW system to Advantage will be implemented.

Recommendation #3 – Establish a dollar threshold for employing a dual-signature requirement to authorize inmate trust fund transactions.

The Office of the Sheriff will comply. All checks over a designated amount to be determined will require dual signatures and future check stock orders will include two signature lines.

Recommendation #4 – Segregate responsibilities among staff for signing checks and/or executing electronic fund transfers from those involved with the accounting/recordkeeping of these transactions. Provide the banks with updated authorizations which reflect only those individuals that should be signing checks and executing electronic transfers and, going forward, update the applicable bank(s) concurrent with changes.

The Office of the Sheriff will comply. An updated check signature card was submitted to the depository bank on October 10, 2012. This identifies only those individuals authorized to sign checks and execute electronic transfers. As responsibilities of the employees maintaining the inmate trust system are reviewed and refined this will provide a clear separation of duties between accounting/recordkeeping and check signing. All future changes will be immediately communicated to the bank. Only specific employees will be authorized to execute electronic fund transfers, who will be clearly identified to our banks.

Recommendation #5 – Perform a detailed reconciliation between the CCW system and the inmate trust bank account to identify and analyze the factors underlying the large discrepancy and ultimately, make the adjusting entries necessary to bring the two back into balance.

The Office of the Sheriff will comply. As of September 1, 2012 a daily reconciliation of all activity in the CCW system is being performed. This includes all daily deposits, transfers and credits into the system and all charges to the trust account comprised of Huber room and board, commissary, health, indigent hygiene, haircut fees, phone credit sales, self bails, etc. With this starting point, a detailed reconciliation of each preceding month up to the database merge will be performed to identify, analyze all discrepancies and make necessary adjusting entries and balance the two systems.

Recommendation #6 – Develop a written policies and procedures manual that covers all material aspects of administering the inmate trust account function.

The Office of the Sheriff will comply and prepare a policies and procedures manual covering all material aspects of administering the inmate trust account function. Currently there are policies and procedures in place within certain functions of CCW (CCF-C Cashiers) and other areas have begun preparation (CCF-S Huber).

Recommendation #7 – Work with the CCW system vendor to develop the ability to extract detailed historical data from the system for use in performing monthly reconciliations and to flag potential errors and irregularities.

The license for the CCW system is owned and maintained by IMCS (Inmate Money Consulting & Software, Inc.) since January 2012. IMCS was instrumental in the merging of the three systems and databases on February 7, 2012. Since the initial efforts to perform monthly reconciliations of CCW to Advantage and the bank account after the merging into a single database, IMCS has been providing professional services to establish readily accessible historical records and reconcilable balances. The Office of the Sheriff Fiscal Staff will continue to work with IMCS to improve the functionality of CCW and develop the ability to extract desired historical data.

Recommendation #8 – Consider resumption of cash payouts of inmate trust balances below \$25, or some other reasonable dollar threshold, at the time of release and return of other personal property to inmates.

On August 24, 2012, the Office of the Sheriff resumed cash payouts to inmates at the time of their release. Inmates with balances in their accounts less than \$30 are refunded the entire amount in cash. Inmates with balances in their accounts of \$30 or more are refunded \$25 upon release and the balance refunded by check. This eliminates the need to issue checks for less than \$5.

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Recommendation #9 – Report and transfer all unclaimed funds, regardless of the dollar amount, from inmate trust fund balances at both the CCF-South and CCF-Central facilities to the County Treasurer’s Office on a timely basis.

The Office of the Sheriff will comply.

Recommendation #10 – Consult with Corporation Counsel as to whether past unclaimed funds of at least \$10 and up to \$25 that have not previously been reported to the Office of the County Treasurer and published must now be published.

The Office of the Sheriff Fiscal Staff had operated under an agreement with the current County Treasurer’s predecessor that it was not necessary to invest time and resources to identify the unclaimed funds less than \$25. The Office of the Sheriff is seeking written confirmation from the Milwaukee County Corporation Counsel as to whether unclaimed funds that have not previously been reported to the Office of the County Treasurer and published must now be published. The Office of the Sheriff if directed to do so by Corporation Counsel will in fact comply entirely with this recommendation.

Corrective Action and Implementation Plan

The recent efforts by the Office of the Sheriff Fiscal Staff and the results of the review into recordkeeping practices over inmate trust funds by the Milwaukee County Office of the Comptroller Audit Services Division have highlighted areas of concern that require improved accounting and controls. Since there are several areas of concern there will be corrective action and implementation plans for each. The corrective measures will be defined into the following courses of action:

- 1) Balance and reconcile the CCW Inmate Trust System to the monthly bank account and to the Advantage accounting system for current activity. Then work in reverse to perform the same measures on all preceding months up to and including the post merger starting balance on February 7, 2012. Prepare and submit any reconciling adjustments to the Advantage system to bring it into balance with CCW.
- 2) Address unclaimed funds Wisconsin State Statute s. 59.66. Review all balances on dormant inmate trust accounts for over one year as of December 31, 2012 and submit a report with inmate names and all relevant information to the Office of the Milwaukee County Treasurer by January 10, 2013. Establish a procedure to continue this review and submittal on January 10 of each odd numbered year. Consult Corporation Counsel to determine whether unclaimed funds that were not previously reported to the Office of the Milwaukee County Treasurer must now be published.

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- 3) Write a policies and procedures manual that serves as an operational and internal control guide for inmate trust account administration and accounting. This manual will serve as a document for management and Fiscal Staff describing in detail the daily operations of the CCW inmate trust account system, responsibilities and duties of staff members, and related accounting functions. Accounting controls and functions will include daily and weekly monitoring and balancing of activity, monthly reconciliations and entries to the Advantage system and other periodic activities such as yearend close and biannual Unclaimed Funds transfers. A review of available software for writing policies and procedures manuals will be conducted to determine if a version exists that can be used to create and maintain a document of standard format and easy to update and modify.
- 4) During the merge of the three trust account systems on February 7, 2012 into a single database a number of old and inactive inmate accounts dated prior to January 1, 2011 were not included. These specific accounts contain positive balances since the last date of recorded activity. Initial review into these accounts indicates account balances may still carry positive balances due to a lack of follow through regarding billings and charges during detention or followup following prisoner release, particularly with Huber inmates. Specifically, daily room and board charges were not assessed to Huber inmate accounts and child support payments and related services charges were not relieved from inmate accounts. It is assumed that these type of omissions account for most of the outstanding balances. Unfortunately, it is not possible to dismiss these balances on such an assumption.

It will be necessary to review each account individually to ascertain the reason for the positive balance and then identify and document any transactions that were not processed in the past. Each account will be maintained 1) in a physical file with supporting documentation and 2) in an Excel spreadsheet containing beginning balance, missing transactions or adjustments with explanation and corrected ending balance. Upon completion of the investigation the final balances will be reconciled to previous revenue recognized and adjusted to the Advantage System. Remaining inmate trust accounts with positive balances will be considered unclaimed funds and forwarded to the Office of the Milwaukee County Treasurer.

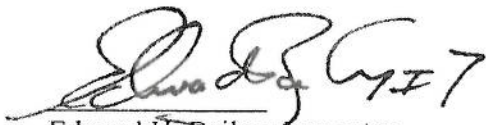
- 5) The CCW Inmate Trust Account system has been used by the Milwaukee County Sheriff's Office for approximately 20 years. During this period of review and reconciliation the limitations of extracting historical data and various processing functions have hampered our efforts. The Fiscal Staff will work with the system vendor to improve functionality and access to historical data and determine if system capabilities are sufficient for future growth and information requirements.

Responsible for Implementation

The Accounting Manager on the Fiscal staff of the Milwaukee County Office of the Sheriff will be responsible for the implementation of these corrective actions. He will rely upon the two (2) Accountant 3 supervisors at CCF-C and CCF-S for the actual daily application of these measures.

Time Line

- 1) Balance and reconcile CCW Inmate Trust System to monthly bank account and to Advantage. **December 31, 2012**
- 2) Address and refer all unclaimed funds to the Office of the Milwaukee County Treasurer.
December 31, 2012
- 3) Write an initial Policies & Procedures Manual for inmate trust accounts as an operational and internal guide. This will be a living document to be revised as changes and revisions are made to the system.
June 30, 2013
- 4) Investigate and determine the actual balances on inmate accounts not included in the database merge. There are in excess of 18,000 accounts. It is estimated this will require a minimum of 2,000 manhours. Existing staff resources will be utilized when available from their daily responsibilities and additional resources may be required either on a temporary or permanent basis.
With existing staff:
December 31, 2013
With additional temporary or permanent staff:
July 31, 2013
- 5) Work with CCW system vendor to improve functionality, access to historical data and assess system capabilities.
Ongoing



Edward H. Bailey, Inspector
Milwaukee County Office of the Sheriff

cc: Scott Manske, Comptroller, Milwaukee County
Douglas Jenkins, Deputy Director of Audit

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