



Performance Audit

Office of the Sheriff Follow-up Audit of Cash Handling Practices and Procedures

Durham County Internal Audit Department

March 1, 2010

EXECUTIVE SUMMARY

February 25, 2010



**Durham County
Internal Audit
Department
(919) 560-0042**

Why We Did This Audit

This audit followed-up on a 2007 audit of cash handling practices and procedures in the Office of the Sheriff. The 2007 audit report recommended five actions to reduce risk associated with cash handling operations. The objectives of this follow-up audit was to answer the following audit questions:

1. What is the implementation status of the 2007 audit report recommendations?
2. Are current controls adequate to reasonably assure that cash is accounted for and reported accurately?
3. What needs to be done to improve financial controls?

Follow-up audits are accepted practice in the field of auditing. The Audit Oversight Committee approved this audit in the fiscal year 2010 audit plan.

What Is Recommended

The recommendations identify improvements to limit the risk of loss due to error, theft, and mismanagement. During the audit, the Office re-started implementation of recommendations from the 2007 audit as well as corrected a deficiency identified in its detention center. We recommend that the Office of the Sheriff:

1. Continue implementation of the 2007 audit report recommendations.
2. Obtain through hiring, training, or other means, qualified personnel to develop and implement financial internal controls and grant them the appropriate authority to implement and monitor them.

For more information regarding this report, please contact Richard Edwards at 919.560.0042 or rcedwards@durhamcountync.gov.

Performance Audit:

Follow-Up Audit Of Cash Handling Practices And Procedures In The Office Of The Sheriff

What we found

Internal controls improvements in several areas are needed to reasonably assure that revenues are accounted for and reported accurately and reliably. Deficiencies were discovered that could allow errors or misappropriation of funds to continue for an extended period before they are discovered. These deficiencies are long-standing and involve accounting for activity at two revenue intake stations. One of the deficiencies was discovered in the 2007 audit and one was recently discovered during this follow-up audit.

Specifically, I found:

- 2007 report recommendations were in various stages of implementation with one not implemented.
- Controls did not meet established criteria for early detection and correction.
- Developers and implementers of controls did not exhibit the necessary qualifications and skills.

Sheriff's Office managers have indicated a willingness to implement the 2007 recommendations. They made several improvements during the audit including fully correcting one of the deficiencies identified during the follow-up audit. Additionally, the Office has consulted with the County's Finance Department to assist with preparing policy and to manage cash handling practices in one of its investigative processes.

**Follow-Up Audit of Cash Handling Practices and
Procedures in the Office of the Sheriff**

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COUNTY OF DURHAM

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March 1, 2010

Michael M. Ruffin, County Manager:

This follow-up audit of cash handling practices and procedures in the Office of the Sheriff was conducted in accordance the fiscal year 2010 audit plan. It follows up on December 2007 internal audit report recommendations.

This audit, conducted between December 7, 2009 and February 17, 2010, found that recommendations had not been fully implemented and that control weaknesses in cash handling practices continue to exist. These weaknesses put the Office of the Sheriff at risk for inaccurate revenue accounting and reporting. The weaknesses also put the Office at risk of not being able to detect and correct errors and omissions timely.

The Sheriff has developed a plan to implement recommendations made in the 2007 audit report. The implementation plan, addressed to the Chairman of the County Board of County Commissioners, is included in this audit report as appendix 2. Additionally, a deficiency involving receipting processes at the Detention Center has been corrected and revised procedures are being written to strengthen procedures for accounting for cash in the narcotics investigation unit.

I appreciate the courtesy and cooperation provided by Sheriff's Office staff during the audit. Managers have reviewed the report and concur with its conclusions and recommendations.

Richard Edwards
Audit Director

Introduction

This follow-up performance audit of Cash Handling Practices and Procedures in the Durham County Office of the Sheriff (Office) was conducted pursuant to the September 12, 2005 Audit Department Charter which establishes the Audit Oversight Committee and Audit Department and outlines the internal auditor's primary duties. The Audit Committee authorized this audit in July 2009.

A performance audit is an engagement that provides assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.¹

Background

The Office is directed by an elected official commonly referred to as the Sheriff. The mission is to enforce the laws by maintaining public safety, serving civil process, housing inmates, transporting inmates and prisoners, and providing other services such as providing gun permits and fingerprinting services.

The Office is divided into three groups. They are:

- Sheriff's Law Enforcement Services - responsible for providing public safety and law enforcement.
- Support Services Division - includes investigations, civil process, court and building security, crime scene investigations and inmate and prisoner transportation.
- Planning and Development - incorporates the budget and fiscal management activities along with information systems management.

Fees are charged for some of the civil services and the Sheriff's clerk's office collects and accounts for revenue. Investigative functions do not produce revenue but use County funds in the regular conduct of its business.

One adjudicated embezzlement and one alleged embezzlement has been identified in the Office since April 2007. In the civil process area, an employee embezzled funds related to writ/judgment execution. In 2009 a suspected embezzlement occurred in the Support Services Division. The internal auditor conducted an audit shortly after

¹ Comptroller General of the United States, *Government Auditing Standards*, Washington D.C: U.S. Governmental Accountability Office, 2007, p. 17

the 2007 incident and made five recommendations to improve internal controls over cash handling.

In April, 2008, the County commissioned Dixon and Hughes, a public accounting firm, to review and evaluate the analysis performed by the Office regarding the embezzlement. Dixon and Hughes also reviewed new procedures implemented by the Office to strengthen controls after the embezzlement was discovered in 2007. Three recommendations, closely related to those in the internal audit, resulted from that review.

Objectives

This audit was conducted to determine the status of efforts by the Office to implement the 2007 audit report recommendations. Specific objective questions were:

1. What is the implementation status of the 2007 audit report recommendations?
2. Are current controls adequate to reasonably assure that cash is accounted for and reported accurately?
3. What needs to be done to improve financial controls?

Scope and Methodology

This follow-up audit was conducted in accordance with generally accepted government auditing standards. I conducted my fieldwork from December 7, 2009 through February 17, 2010. The audit covered implementation events from December 2007 through completion of the follow-up audit on February 17, 2010. Audit work included:

- Reviewing current cash handling policy and procedures,
- Reviewing procedures at cash handing stations,
- Interviewing staff involved in cash handling processes,
- Observing operations at cash intake points,
- Reviewing daily activity documentation in the Civil Division Clerk's station and Detention Center clerk's station,
- Briefings and walk-through of current cash flow procedures in the undercover narcotics unit, and
- Reviewing procedures for gathering and accounting for evidence.

FINDINGS AND ANALYSIS

Internal control improvements in several areas are needed to reasonably assure that revenues are accounted for and reported accurately and reliably. Deficiencies were discovered that could allow errors or misappropriation of funds to continue for an extended period before they are discovered. These deficiencies are long-standing and involve accounting for activity at revenue intake stations. One of the deficiencies was discovered in the 2007 audit and one was recently discovered during the follow-up audit. Additionally, supervisory review activity, although conducted diligently, did not identify the deficiencies. Inadequate review activity was a factor in both the 2007 embezzlement and the alleged embezzlement discovered in 2009.

The Office has begun steps to implement 2007 report recommendations as well as recently identified control weaknesses. The Office has consulted with the County's Finance Department to develop cash handling procedures.

Controls did not meet established criteria. Auditing standards state that "a deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect, or correct (1) impairments of effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations, on a timely basis. It further states that a deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively."²

Over approximately a three-year period, the Office experienced two occurrences in which the criteria were insufficient. Both occurrences involved theft by employees. Both occurrences, one adjudicated and one alleged, took place over a span of time indicating insufficiency of controls as they were designed or implemented. In neither instance were the irregularities discovered through normal conduct of business activities using the controls in place. In both instances, supervision and review processes were in place, however, they were improperly designed or implemented. Reviewers approved monthly financial reports that showed reconciled balances but the reviews did not identify irregularities in the underlying transactions. The lack of adequate review, which played a part in allowing irregularities over a period of months, taken with other control deficiencies noted below, indicates that persons implementing controls did not possess the necessary qualifications or authority to perform the control effectively. In both instances, persons in the chain of command or

² Comptroller General of the United States, *Government Auditing Standards*, Washington D.C: U.S. Governmental Accountability Office, 2007, pp. 134,135

responsible for review said they had been fooled by the person committing the irregularities.

Both the control regarding timely detection or correction and the control regarding qualifications and authority to perform the control effectively were inappropriately designed or implemented.

Recommendations made in a 2007 report were not fully implemented.

Results of the December 2007 audit report were (1) controls over the cash handling process were not sufficient to reasonably assure risks were mitigated, (2) inventory management controls were inadequate, and (3) supervision and review activity were inadequate. Five recommendations were made to strengthen these deficiencies. The recommendations along with my assessment of their implementation status are below.

Recommendation 1

“Develop and implement a process to account for transactions coming into the Office from outside agencies and from transactions generated within the Office. Although not very efficient, the office could reconcile its judgment and writ receipts with the document provided by the Clerk’s office. For production generated within the office, I recommend that as an interim measure, the Office develop a log for Records Division clerks to record paying transactions.”

Status: Recommendation not implemented. A control weakness currently exists in the writs execution process; however, other revenue points were more tightly controlled. The Office has not designed and implemented a system to determine the number of transactions received from the Clerk of Court for execution. Without determining the number of writs received for processing and execution, revenue reporting is not assured to be accurate and reliable. This was the situation in the 2007 incident when unprocessed writs were found in boxes with un-deposited checks attached that were targeted to pay administrative fees. The potential loss is ten percent of the amount collected on the writs.

There isn’t a linkage between the inventory and the number of writs processed and executed. A system to assure that all writs intended for processing are indeed processed, will provide reasonable assurance that the maximum financial benefit is gained from the writ execution service.

Internal controls for badge, fingerprinting, and gun permit revenue portals were enhanced since the 2007 audit. Guards were trained to route citizens to the clerk’s window for payment before obtaining these services. Service providers obtain customer receipts before providing services. This process, as tested, provides reasonable assurance that service is provided in accordance with acceptable procedures.

Recommendations 2 and 3

“Segregate the duties of the cashiers. The Office should devise a strategy similar to Exhibit 4 to separate the duties assigned to the cashiers. (See appendix 1 for Exhibit 4.)

Review cashier operation and transactions daily. The review should be designed to assure that all transactions are entered and that deposits and reconciliations are proper.”

Status: Incomplete implementation. These recommendations were made specifically for the clerk operation. During the 2007 audit the clerk’s office process was not as well defined as it is currently. The recommendation was made to provide a model for cash handling functions as well as to emphasize the need for review and reconciliation. If the operation within the clerk’s office is isolated from the inventory process, it meets the standards for adequate controls, because it assures that receipts and postings match deposits. Computer generated reports are reviewed and reconciled daily and signed by the reviewing official.

However, this process is only sufficient for the transactions entered into the automated recording and reporting system. It does not assure that all writs will be processed. The recommendation regarding writ inventory controls would impact reliability of recording and reporting and needs to be corrected before confidence in the clerk process rises to the level of reasonable assurance that accounting for transactions is complete.

Recommendation 4

“Understand and expand the RMS system and use it to record all writ execution transactions.”

Status: Recommendation partially implemented. Writ execution processing is a two-part effort. The clerk’s administrative portion includes entering the transaction into the clerk’s recording system as they are received from the Clerk of Court or other sources and collecting and receipting the \$15 administrative fee as required. It also includes cash handling processes when collection actions have resulted in revenue collection. The second effort is executing the writ or making the collection. This requires tracking or keeping records of judgment amounts and resulting expenses related to the collection effort. It also includes accounting for the ten percent portion of collections the Office is allowed to keep.

In the writ tracking process, dual tracking systems are used. One is a manual journal system and one is the automated RMS system. Some records were duplicated in the systems. Because manual processing is prone to error, requires storage, and is more subject to loss and destruction, I recommended more use be made of the RMS

system. The recommendation was intended to facilitate streamlining of writ execution tracking and to make better use of the RMS for accurate accounting and reporting.

Being mindful of the 2007 theft, the Office put additional processes into place to assure that execution activities were proper and that revenue and expenses were adequately accounted for. The Office has begun to use Excel spreadsheets to track execution activities and requires cross signatures on all transactions. Transactions are reviewed by managers throughout the process. My opinion is that it will take collusion between at least three people to perpetrate fraud or theft of collections in the writ execution process.

Writ execution accountability systems are secure; however, efficiency of the process is under review. Both the manual journal and RMS system are still in use and the RMS is not fully used. The Office is testing processes to reduce the manual paperwork and rely on the RMS system for tracking purposes.

Recommendation 5

“Develop a system to account for, track, and reconcile all financial transactions at least daily.”

Status: Recommendation Partially Implemented. This recommendation was general and meant for all points in the Office that handled cash. When the 2007 audit was underway, requirements to track and reconcile funds needed emphasis. The follow-up showed that the Office had made efforts to review and track funds more diligently. However, these efforts are limited by the design and implementation of the internal control system.

Opportunities Exist To Enhance Controls

Internal control systems need to be appropriately designed so as to assure their implementation will result in achieving the objectives of quickly identifying and correcting errors, omissions, and fraud. The control deficiency discussed in recommendation 1 was identified in another operation. At the detention facility, clerks received funds for deposit into inmate accounts but did not provide pre-numbered receipts; therefore, transactions could not be reconciled with daily activity reports. Without this basic control in place, revenue could be lost and undiscovered unless an inmate inquired about it.

The Chief Deputy told me he has corrected this deficiency by ordering pre-numbered receipts for the inmate intake operation.

Expertise is required to develop and implement controls. Several incidents have transpired that lead to the conclusion that the Office needs to obtain qualified

individuals with the appropriate authority to develop and implement internal controls. The 2007, embezzlement was done while supervisory review of reports was conducted at least monthly. According to the person reviewing financial documents, she was deceived by the clerk that conducted the embezzlement activity. A tip to the Office identified the inappropriate activity. Also, the alleged theft in the narcotics investigation unit was not detected through the normal course of business. The theft was identified by an employee and brought to the attention of managers. According to an official familiar with the allegation, monthly reports were reviewed to reconcile account balances; however, transaction details were not part of the review at that time. Also, quarterly audits were not conducted as required according to an official familiar with the circumstance surrounding the theft allegation.

After each incident, the Office made efforts to shore up its controls. It implemented a clerk's office with additional controls after the 2007 theft. After the alleged 2009 theft was discovered, additional controls were developed and implemented. The additional controls were adequate however, those with implementation responsibility communicated that they were burdensome, requiring an inappropriate amount of time. Office and Finance Department staff is collaborating to develop streamlined procedures that meet the accountability, recording, and reporting needs of both entities.

Employee Proficiency Needs Review. By observation and discussions with current employees tasked with developing and implementing controls, it appears that Office employees with financial responsibilities are conscious of the need to be accountable and to prepare and present accurate and reliable financial reports. This attitude shows in the efforts to accurately record, review, reconcile and report on financial transactions.

Although, there appears to be a high level of awareness and effort by employees involved in financial processes, the control deficiencies discussed previously were identified during the audit. The deficiencies, taken together with the occurrence of two thefts, indicate that those responsible for developing and implementing controls do not have the necessary skills. Several employees have acknowledged they are not formally trained in areas of financial controls although they have responsibility in that area.

On the other hand, the Chief Deputy cited as reasons for control deficiencies, the lack of follow-through on control requirements in place during the incidents of theft. For example, the Chief Deputy said a quarterly audit requirement was in place in the unit where the current theft incident is under investigation but the audits were not conducted. He also said the level of trust was too high and this impacted compliance with established Departmental policy. The Chief Deputy said he was mindful of the need for employees to be responsible and did not want to blur the line between responsibility and the lack of ability.

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The Chief Deputy said controls are stronger and will become even stronger as the Office reacts to the more recent theft incident. I agree that control improvements were made and others are under development. However, because of the elementary nature of the control deficiencies, a determination of the qualifications of the persons responsible for designing and implementing controls is warranted. Development and implementation of appropriate controls require persons with the appropriate qualifications along with the appropriate authority to be successful. According to the standard, internal controls should be designed properly and qualified persons need to be in place to implement them.

Recommendations

These recommendations are designed to improve risks of prolonged errors, omissions, and fraud involving cash handling operations. The Office has taken steps to address several control deficiencies and according to discussions, is taking steps to implement the 2007 report recommendations. We recommend that the Office:

1. Continue implementation of the 2007 audit report recommendations. Emphasis should be on developing a method to determine the volume of inventory received for processing so it can be used as a tool in reconciling activity, receipts, and deposits in the writs execution process.
2. Obtain through hiring, training, or other means, qualified personnel to develop and implement financial internal controls and grant them the appropriate authority to implement and monitor them.

Appendix 1

Cash handling process recommended in 2007 report

EXHIBIT 4
BEST PRACTICES CASH HANDLING CONTROLS

Best Practices For A Two Person Cash Handling Operation					
Role	Handling Cash	Preparing Deposit	Reconciling receipts to deposit	Making cash Deposit	Reconciling deposits for GL submission
Individual #1	X	X		X	
Individual #2			X		X

Source: University California Santa Clara, Cash Handling, Basic Cash Control Training, Cash Handling Roles Module

Appendix 2
Implementation Plan-Sheriff Worth Hill



COUNTY OF DURHAM
OFFICE OF THE SHERIFF
WORTH L. HILL
SHERIFF



February 22, 2010

Michael D. Page, Chairman BOCC
200 East Main Street
Durham, North Carolina 27701

Dear Chairman Page,

As expressed earlier, my decision to defer attendance at the Closed Session for the Board of County Commissioners was to afford my Office the opportunity to assemble and report to you a comprehensive view of the issues. Like you, I have been disheartened by the two incidents of embezzlement within the past two years related to Civil Execution and Narcotic funds. Despite significant improvements in financial and process controls, regrettably another incident occurred prior to completion of our agency's full implementation of the audit recommendations.

The first incident of embezzlement/misappropriation of funds occurred in April 2007 within the Civil Process Execution Division. Efforts were immediately initiated to consolidate cash handling agency wide and revise policy that would segregate process. Staff was reallocated and the Cashier's Office opened for business October 1, 2007. An Internal Audit was conducted by Richard Edwards during the following two months and a subsequent audit by Dixon and Hughes (DH) in April 2008. Criminal prosecution was pursued and completed. The second alleged incident of embezzlement occurred prior to the Spring of 2009 within the SAC/N Division. A criminal investigation is in progress. A second internal audit is currently underway and you have received a "status report" but not a final report. I have been told the final report is expected by the end of February.

The two audits (2007 and 2008) recommended the following actions:

- 1) Develop and implement a process to account for transactions coming into the Office from outside agencies and from transactions generated within the Office. Although not very efficient, the office could reconcile its judgment and writ receipts with the document provided by the Clerk's Office. For production generated within the office, I recommend that as an interim measure, the Office develop a log for Records Division clerks to record paying transactions.
- 2) Segregate the duties of the cashiers. The Office should devise a strategy similar to Exhibit 4 to separate the duties assigned to the cashiers.
- 3) Review cashier operation and transactions daily. The review should be designed to assure that all transactions are entered and that deposits and reconciliations are proper.
 - a. (DH) Comptroller should sign off on review of the monthly reconciliation reports. The comptroller should confirm that original copy of bank statement had been received and that it was used to prepare the monthly reconciliation.
- 4) Understand and expand the RMS system and use it to record all writ execution transactions.
 - a. (DH) Continue the integration and reconciliation between the RMS system and the Cash Receipt system to properly manage and account for all writs of Execution.
- 5) Develop a system to account for, track, and reconcile all financial transactions at least daily.
 - a. Include receipt numbers on the tracking log maintained by each deputy to properly account for receipts issued and still on hand.

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Implementation Assessment

Recommendation 1

Develop and implement a process to account for transactions coming into the Office from outside agencies and from transactions generated within the Office. Although not very efficient, the office could reconcile its judgment and writ receipts with the document provided by the Clerk's Office. For production generated within the office, I recommend that as an interim measure, the Office develop a log for Records Division clerks to record paying transactions.

Public requests for service associated with payment are primarily served by the Civil and Records Division. Additional transactions are conducted within the Narcotics Division, Evidence and Detention Facility.

Civil Process

Numerous meetings have been held between Sheriff's staff and the Clerk of Court since 2007 to discuss methods to accurately determine the number of transactions received by the Clerk of Court requiring service by the Sheriff's Office so that my agency can reconcile the activity. While complete implementation of this request is desired, it is not obtainable at this time. An alternative implementation is underway. The Clerk of Court is a state agency with offices in 100 counties. It serves as a single point of entry for citizen requests of the Court system and is responsible for managing a statewide consolidated records database. The Durham County Sheriff's Office irresponsible for service of these requests when the listed address is one within our jurisdiction. There is no requirement that Process received through the Clerk's Office be retained by that Office and then delivered to the Sheriff's Office for service (assuring a more solid reconciliation between request and receipt). Citizens are afforded the opportunity to either pay for service (performed by the Sheriff's Office) at the Clerk's Office or they can elect to just pay the filing fee and then deliver the paper to the Sheriff's Office themselves. The Clerk's Office holds and delivers to our office those papers where citizens elected to pay for filing and service at the Clerk's Office. The remaining paperwork can be delivered at any time, if at all, making a full reconciliation impossible under the current scenario. Requests can also be generated from any of the other 99 counties within North Carolina or out of state. The state and national multiple points of origination leave our office unable to know what is coming until it reaches our door. Approximately 36,000 process papers are received annually and entered by three civilian staff members. Staffing levels and mandated time constraints for service prohibit the logging and reconciliation of individual papers on a daily basis as per the audit recommendation. Understanding this, the Sheriff's Office has worked with the Cashier's Office and Clerk of Court tonsure that the requests that are received by the Sheriff's Office have been paid for before delivery of service. Paperwork received by the Civil Division is reviewed to ensure it meets the requirements of a "no fee" paper, has a valid receipt attached issued by the Clerk's Office or has a valid receipt number issued by the Sheriff's Office Cashier Office. This review and verification of payment has proven to be successful. On occasion it has been noted that the Clerk's Office receipt did not support the attached documentation and the matters were resolved with the Clerk's Office.

Additional levels of control and tracking are being evaluated to ensure the paperwork that is received by this office is entered into the records database and associated with the appropriate fee categories.

- A plexi-glass window will be installed at the Civil Division front desk to strengthen receipt and security of paperwork received. Anticipated completion by April 2010.
- A date/time/sequential number stamp will be purchased to replace the date/time stamp machine currently used. The addition of the sequential numbering system will allow Civil staff to reconcile papers received to papers entered into the database. Anticipated completion during March 2010.
- Staff have scheduled a meeting with the records system vendor on February 23, 2010 to discuss utilization of the RMS system to track fees and fee types of all papers entered by Sheriffs Staff. This additional information will provide a point of reconciliation between RMS and the Cashier's Office for funds received at the Sheriff's Office (in state and out of state), quantitative data on no-fee papers, and an evaluation of funding collected by the Clerk of Court. Initial review of the software indicates required

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fields and three additional screens must be completed to facilitate this process. Vendor recommendations, code table changes, must be assessed to determine reporting and manpower impact resulting from the additional data entry will be assessed to determine level of implementation. Implementation targeted for May 2010.

Records

Initial audit recommendations suggested an interim measure of developing a log for Records Division clerks to record paying transactions. Upon the Internal Auditor's return visit during the past two months, his status report indicated these points were more tightly controlled through the implementation of the Cashier's Office receipting process. The auditor and other designees made several attempts to gain service prior to visiting the Cashier's Officer but was denied and redirected each time. The additional implementation of a log in Records was discussed with the Auditor at the February 10, 2010 meeting but was concluded to be unnecessary considering the adherence to process and the additional staff time it would take to track such activity.

SAC/N

Funds are made available to the narcotics division for purposes of facilitating criminal investigation efforts (buy money, flash money, informant funds, etc). Funds were historically requested and maintained by the Division supervisor with a quarterly audit of ledger sheet to cash on hand conducted by the Comptroller's Office. Pursuant to the alleged theft within the unit, policy revisions have been incorporated to secure additional controls and review that have reduced risk probabilities. Monthly audits are now conducted by the Captain overseeing the unit and two quarterly audits have been conducted by Fiscal staff since implementation. Audits are forwarded to the SAC/N Chain of Command and Fiscal staff supervisors.

The audit status report indicated the additional controls resulted in identifying duplication and unnecessary efforts which could be streamlined and still effective. A subsequent meeting was held with the Internal Auditor, SAC/N supervisors, Sheriff's Fiscal staff and County Finance to discuss streamlining the process while maintaining fiscal accountability and operational efficiency. The meeting concluded with the decision that the Sheriffs process with minor revisions was the most suitable to accommodate the needs of all involved parties. The process is currently being edited by County Finance and will be discussed with Sheriffs staff the week of February 22, 2010. Implementation will immediately follow.

Additional activities under consideration for implementation are the utilization of the Intelligence module within the Records Management system to enhance case management and fund tracking. Case management is currently being piloted within the Investigations Division and will be used to assess use within the SAC/N unit.

Inmate Accounts

Upon incarceration, all property of an inmate is inventoried and stored until release. Management of inmate funds functions similarly to that of a bank. Monies received are verified, receipted and logged by the Booking Officer, placed in a drop safe and retrieved by the Inmate Funds clerk the following morning. These funds are re-verified and deposited. The inmate's record is updated to show receipt of funds. During the inmate's incarceration period, citizens may also choose to mail or come by the facility to deposit additional funds that can be used to pay for medical or canteen services. The Sheriff's Office uses the SunTrust on-line Treasury Manager for authorization of payment on checks issued to released inmates to reduce liability of processing altered or fictitious checks against the account. There is an established policy and procedure that sets the requirements for the management and accountability of the personal funds (Accounts) for inmates being detained by the Durham County Detention Facilities. It also provides guidance and direction to all Durham County Sheriffs personnel who are involved in the development,

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administration, security, reconciliation, and accountability of such accounts. A review of current procedure is underway and revisions to include further segregation of duties, additional levels of review and form updates will be incorporated to reflect best practices identified in the audit review of the Cashier's Office. Anticipated completion date is April 2010.

The audit status report identified a receipting issue at the Detention facility whereby receipts were not pre-numbered. This was identified by Sheriffs Staff for inclusion in the policy and procedure revisions mentioned above but were not implemented at the time of the auditor's visit. This has since been corrected and is currently implemented.

Additional activities include incorporation of public kiosk machines, real-time account balance information for inmates via inmate pod stations and internet capability for public to deposit funds directly into the inmate's account. It is anticipated these efforts will reduce cash handling and receipting at the Detention facility while enhancing public and inmate accessibility. Implementation efforts are currently underway between Fiscal and Detention staff with full implementation expected by November 2010.

Evidence

The property officer is responsible for all property/evidence in his/her control and only he or his alternate has access to areas used to store the property/evidence. The property officer maintains records accurately reflecting the exact location, status, date and time the property was received or released; character, type and amount of property on hand; and the chain of custody from the time property is stored until its final disposition. The property officer and accounting clerk verify cash the next business day and arrange to deposit the cash into the Sheriff's Office evidence account. Funds may be released from the evidence account once the evidence/property is no longer needed by the courts or the submitting officer. The property officer provides supporting documentation (court order or request for release of funds) to the Accounting Clerk who prepares the check. The Property Officer delivers and obtains signatures on the receipt upon disbursement. A copy of the check, supporting documentation and receipt is retained by the Accounting Clerk and the Property Officer. A monthly reconciliation between bank balance, books and evidence cards is completed by the Accounting Clerk.

The property officer conducts a semi-annual quality control inspection to ascertain that procedures are being followed. Unannounced inspections are conducted as directed by the Sheriff or his designee. An annual audit is conducted by a supervisor who is not routinely or directly in control of the property.

Improved data collection, segregation of duties and procedure revisions are in progress

Recommendations 2 and 3

"Segregate the duties of the cashiers. The Office should devise a strategy similar to Exhibit 4 to separate the duties assigned to the cashiers."

"Review cashier operation and transactions daily. The review should be designed to assure that all transactions are entered and that deposits and reconciliations are proper.

b. (DH) Comptroller should sign off on review of the monthly reconciliation reports. The comptroller should confirm that original copy of bank statement had been received and that it was used to prepare the monthly reconciliation.

All monies related to service requests are processed through the Cashier's Office as of October 2007. These funds include record division requests (criminal/driver history, fingerprinting, permit fees, reports, etc), civil fees and security cards. The process of handling these funds to include receipting, daily/monthly reconciliations, and supervisory review was written with input from the Durham County Internal Auditor

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and a private audit firm. Restricted access and segregation of duties and process among multiple Divisions/personnel has substantially reduced the risk probabilities that once existed.

The above recommendations have been completed and implemented. Cashier's Office policy was revised January 7, 2008. The policy has since been revised to tighten control on duplicate receipt issuance and Execution refunds. There has been consistent shift relief and cross training efforts with the Cashier's Office (and Inmate Accounts) to mitigate opportunities for collusion and disrupt "comfort" levels that could lead to diversion from process.

Recent Audit Status Report indicated the Cashier's process was not as clearly defined at the time of the 2007 audit as is now. Current cash handling system is appropriate to reasonably assure that receipts and postings match deposits. Concern was expressed by the auditor regarding assurance that all transactions were processed. Please refer to inventory/tracking references for Civil and Records under Recommendation 1.

Recommendation 4

Understand and expand the RMS system and use it to record all writ execution transactions.

- a. (DH) Continue the integration and reconciliation between the RMS system and the Cash Receipt system to properly manage and account for all Writs of Execution.

Recent Audit Status Report indicates implementation is adequate with additional systems now in place and would take collusion between at least three people to perpetrate fraud or theft of collections in the writ process.

Additional levels of control and tracking to be implemented by May 2010 include increased utilization of RMS to record and report Execution collections and payments. This process was instituted briefly from January 2008 - April 2008 but ceased. During the May - November 2010 evaluation period, the Executions Office will continue to record activity under the current process and simultaneously record the activity electronically within RMS. Monthly data quality audits (by Civil staff) and financial reconciliations (by Civil and Financial staff) will be conducted to monitor accuracy, efficiency and operational integrity. At the conclusion of the evaluation period, the determination will be made by Civil Command Staff and the Chief Deputy as to which system will be retained and policy adjusted accordingly.

Recommendation 5

Develop a system to account for, track, and reconcile all financial transactions at least daily.

- a. Include receipt numbers on the tracking log maintained by each deputy to properly account for receipts issued and still on hand.

Please reference aforementioned details regarding the efforts to account for, track and reconcile transactions on a regular basis. Inclusion of receipt number on the officer's tracking log has been implemented.

The Audit Status Report indicated that although efforts were made to more diligently review and track funds, it appeared that personnel in positions to assure that revenues and funds were properly accounted for did not have an understanding of what was required, causing the efforts to fall short. The recommendation was to hire a "competent" comptroller that would oversee all the Sheriff Offices financial systems, controls, and cash handling transactions. While I agree the efforts fell short, I do not believe it was because of a lack of knowledge within the agency but the result of turnover and increased demands on staff time.

Follow-up Audit – Office of the Sherriff Cash Handling Practices
Code 10.03

To effectively and efficiently meet the diverse service demands, many of which are time driven, I believe fiscal accountability and responsibility must be shared across all divisions and cannot be isolated to one Division such as Fiscal Services. Since the initial audit, there have been retirements of four individuals directly involved with the pre and post audit activities of 2007 and 2008. Two of the five positions cut during Fiscal Year 2008/09 were Command Staff positions. The result of these two events required an extensive restructuring of Command Staff and duties. As staff have worked to learn their new responsibilities and absorb additional ones resulting from budget cuts, voids of information have been created. Fiscal Services has also faced challenges.

There are currently 7 civilians assigned to Fiscal services within the Sheriff's Office. Two of these individuals are located at the Detention facility, two operate the Cashier's Office, one is assigned to handle accounts payable, billing and procurement; an Account Tech II (supervisor) and an Administrative Officer II (Comptroller) whose responsibilities at this time are limited to budget, procurement, payables and receivables. During the fall of 2008, fiscal services lost the utilization of a position shared with legal to administer contracts, process vehicle service/equipment needs and administer 3 federal grants (progress and financial reporting) shared with the City of Durham. These duties were absorbed by existing Fiscal staff that suffered reduction of the supervisor's position for four months during 2009 until a new person could be hired. Since that time duties have been reallocated, current staff have absorbed quarterly grant reporting (performance and financial) requirements for two additional federal grants shared with the City and worked to accommodate dramatic budget reductions. It was brought to my attention an additional person to provide fiscal support, specifically process review and internal auditing, was needed. The decision to fill this request was delayed based on the fiscal forecast from the county and now I have identified 15 positions (previously mentioned staff position included) for possible elimination.

Fiscal responsibility and delivery of agency services has and will continue to be a priority of the Sheriff's Office. The ability to achieve these results within the desired timeframe has been impacted by difficult economic times. I appreciate the return visit and comments provided by the Internal Auditor. It has served as a focal point for Command Staff to discuss current practice and explore alternatives to improve accountability and efficiency. I look forward to his final report as I believe it will be more reflective of the implementation efforts provided in this document. We remain committed to improving service and accountability on all levels and welcome the opportunity to work collectively towards this goal.

With Regards,



Worth L. Hill
Sheriff, Durham County