

**Montgomery County, Maryland
Office of the County Executive
Office of Internal Audit**



**Department of Corrections and Rehabilitation
Escrow Account Funds**

AUGUST 4, 2014

Highlights

Why MCIA Did this Audit

The Department of Corrections and Rehabilitation (DOCR) operates facilities in which approximately 2,000 individuals are incarcerated in the Montgomery County Detention Center (MCDC), the Montgomery County Correctional Facility (MCCF) or housed in the County's Pre-Release and Re-entry center (PRRC). The PRRC houses and serves individuals that are within 12 months of release from correctional custody. DOCR holds in an escrow account funds from individuals that are of those incarcerated or housed. The individuals have the funds in their possession, earn or received by outside parties. For year ended June 30, 2013 the escrow account balance for MCDC was approximately \$132,000 and the escrow account balance for the PRRC was \$75,500. This audit was conducted at the request of DOCR management. The overall objective was to assess the adequacy of the design and operational effectiveness of internal controls surrounding escrow cash balances, facility escrow account systems and the debit card program, and management of DOCR's contract with Keefe Commissary Network, LLC (Keefe). The contract with Keefe is for the use of a commissary system, commissary services and the escrow accounting system used for inmate trust fund accounting. The last audit of the accounts for MCDC and MCCF was in 2002 and for PRRC was 2005.

What MCIA Recommends

MCIA is making six recommendations to improve MCDC and PRRC's review of transactions including associated corrections, enhance documentation supporting PRRC recording of earnings and fee calculations, and reinforce documentation retention procedures. DOCR concurred with the recommendations and stated it will implement them.

August 2014

Department of Corrections and Rehabilitation Escrow Account funds

What MCIA Found

The Department of Corrections and Rehabilitation has adequately designed and implemented procedures and internal controls for the debit card program and management of its Keefe contract. During our procedures, we found no internal control weakness in the areas of the debit card program or management of the Keefe contract.

However, we did identify weaknesses in controls and adherence to internal controls over the escrow cash balances and facility escrow accounts for both the MCDC and PRRC, such as: 1) completeness of correcting errors and documenting corrections of detected errors; 2) accuracy in calculations of rent and savings charges for residents; 3) adequacy of documentation of key information supporting resident earnings and fees recorded; and 4) retention of supporting documentation for transactions.

In testing escrow account activity for both the MCDC and the PRRC, we found errors in transactions recorded in the accounts. We tested 139 MCDC inmate accounts and found \$330 in errors involving two accounts. We tested 129 PRRC resident accounts and found errors in 18 accounts. These errors ranged from \$.10 to \$3,079.

Lastly, we found that the department did not have any formal requirement to ensure performance of periodic independent reviews or audits of escrow accounts; an important component in a system of internal controls to help prevent fraud and abuse.

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Objectives

This report summarizes the work performed by Cherry Bekaert LLP on behalf of Montgomery County Office of Internal Audit (MCIA) in an internal audit of the Department of Corrections and Rehabilitation (DOCR). The scope of this engagement included reviewing key documents and systems that support the design, operation, management and reporting of DOCR escrow cash balances as of and for the fiscal year ending June 30, 2013. We also reviewed DOCR's management of its Keefe Commissary Contract. The specific objectives of the audit were as follows:

- Review the adequacy of the design and operational effectiveness of internal controls surrounding escrow cash balances of inmates at the Montgomery County Detention Center (MCDC) and residents at the Pre-Release and Re-entry Center (PRRC), including initial account set-up, cash transaction while incarcerated and in residence, and close out of account upon release.
- Review the design and operational effectiveness of internal controls surrounding the recently adopted debit card program.
- Review the design and operational effectiveness of internal controls surrounding the APPX¹ system.
- Test individual inmate and resident account balances to verify they are correct upon release or at period end (June 30, 2013) using a projectable statistical sample of total account balances for the two funds.
- Test the selected inmates and residents cash disbursements and cash receipts in their Account Summary to verify the accuracy as shown in the June 30, 2013 Annual Statements of each of the two funds. This testing included examining the sufficiency of documentation to support payments to vendors.
- Review the design and operational effectiveness of internal controls surrounding the cash reconciliation process and reporting to the Montgomery County Finance Department.
- Review the adequacy of DOCR's management of the Keefe Commissary Contract.

This internal audit report was performed in accordance with consulting standards established by the American Institute of Certified Public Accountants (AICPA) and generally accepted government auditing standards established by the Government Accountability Office, as appropriate. Our proposed procedures, developed to meet the objectives stated above, were reviewed and approved in advance by MCIA. Interviews, documentation review, and field work were conducted from August 2013 – November 2013.

¹ APPX is the system of record for the escrow accounts for individuals housed at the Pre-Release and Re-Entry Center

Background

Montgomery County Detention Center

Overview

DOCR has two facilities, the Montgomery County Detention Center (MCDC) and the Montgomery County Correctional Facility (MCCF) that houses individuals who are incarcerated. Approximately 16,000 offenders arrive at the Central Processing Unit (CPU) at the MCDC annually. MCDC has a capacity of up to 200 inmates and conducts screening for psychological and medical conditions. The majority of the offenders that pass through the CPU are transferred to the MCCF. MCCF is responsible for the custody of the male and female offenders who are in pre-trial status or serving sentences of up to 18 months. The current capacity of MCCF is 1,028 inmates. MCDC and MCCF use the Keefe Commissary Network (Keefe) to record all inmate escrow account transactions. DOCR has a contract with Keefe for the use of the commissary system, commissary services and the escrow accounting system (KCN). DOCR withdraws funds from inmate escrow accounts to pay Keefe for the commissary sales made to the inmates. Keefe pays DOCR a commissary commission based upon all commissary sales. DOCR retains the commission from each Keefe invoice. The escrow accounts for MCDC and MCCF were last independently reviewed in 2002.

Intake Process

Each inmate that enters MCDC is assigned a unique KCN system ID, by the processing officer. Inmates that return to the facility are assigned their exiting KCN system ID for the escrow account. Each inmate creates their own password for accessing their account.

The inmate enters his/her Inmate ID # and password and feeds any cash and/or coins in their possession into the Booking Kiosk. After the monies are deposited, the inmate receives a receipt report detailing the funds entered into the Kiosk. A second copy of the report is placed in the inmate MCDC file. In addition to having the Kiosk receipt, the amount of money each inmate had upon entry into the facility is recorded on the Inmate Property Record form or DCA-14. The inmate signs the form along with the receiving officer to confirm that his/her belongings are in the possession of the DOCR.

Transactions while Incarcerated

Inmate escrow account balances can increase from deposits received from family and friends or payments from federal, state or local governments. Disbursements from the accounts would be for canteen purchases and the receipt of services while incarcerated. See Appendix A for the full listing of transactions.

Escrow Account Monitoring by Inmates

Inmates are able to view their current balance in their account, all activity, and place a new canteen order in the Kiosk. If the inmate believes there is a discrepancy in their account balance, the inmate may file a Grievance Form. The DOCR Accounting Section reviews the Grievance Form and investigates the difference, if any. If the DOCR Accounting Section agrees

there is a discrepancy, then the inmate's account is credited. If the DOCR Accounting Section believes the balance is correct, they will notify the inmate.

Inmate Release

The officer in the Main Control Unit (MCU) processes the inmate upon their release. Depending on if and how much money the inmate has in their individual account, the inmate receives a debit card or bus token or cash when their balance is under \$2.00.

Payments to Keefe Commissary

Per the contract with Keefe, DOCR is due a commission on commissary sales to inmates. The commission is taken by DOCR as a deduction on Keefe invoices. See table 2 for the calculation. The MDCD Accountant records weekly canteen sales on a spreadsheet and totals for the month. Keefe Commissary sends an invoice for the month showing all of the sales and credits. The MDCD Accountant matches the spreadsheet to the invoice to confirm the accuracy of the Keefe invoice and detect any discrepancies. Discrepancies that are noted are investigated by the MDCD Accountant.

Table 1 – Calculation for Payment to Keefe Commissary

Gross Amount per Invoice
-Adjustments
-Discounts (equals Commission for MDCD)
= Total amount owed to Keefe Commissary

Pre-Release and Re-entry Center

Overview

Montgomery County's Pre-release and Re-entry Center (PRRC) is a facility that houses and serves individuals that are within 12 months of release from correctional custody and have been incarcerated in the County's correctional system. Pre-release and Re-entry Services (PRRS) provided at the center include an open community, work release opportunities, and a highly structured program with zero tolerance for illegal activity. The facility has 5 housing units, one for women, two for men incarcerated for civil crimes, one for men incarcerated for federal crimes, and one for individuals on Home Confinement (HC). HC residents live at home and wear an ankle bracelet that tracks their whereabouts. They are required to return to the PRRC facility twice a week to check in and must bring their paycheck or paystub from their employer. The PRRC uses the APPX as the system of record for resident escrow accounts. The escrow accounts for PRRC were last independently reviewed in 2005.

Entry into PRRC from Montgomery County Detention Center

MDCD sends PRRC a check for the value of the inmate's escrow account for Inmates transferring from MDCD to the PRRC. The check is held by the transferring officer and given to PRRC Accounting upon the inmate's arrival at the facility.

Initial Account Deposit

The PRRC Accountant or Fiscal Assistant records the new residents' PRSSID # on the check and gives the check to the resident supervisor (RS) of the resident's newly assigned housing unit. The RS records the details of the check on a two part receipt. One copy of the receipt is given to the resident and a second copy is attached to the check and dropped into the housing unit safe.

Transactions while Housed or Monitored by PRRC

Resident escrow account balances can increase from wages earned for jobs outside or inside the facility and from funds received from family members. Disbursements from the accounts would be for facility fees such as program fee, mandatory savings, and services. In addition, residents can request petty cash distributions for transportation to and from work. See Appendix B for the full listing of transactions.

Deductions from Residents Wages

Residents that work outside of the facility are charged rent up to a set maximum amount. HC residents are charged a 10% program fee based on their gross pay. In addition, residents are required to save a percentage of wages earned for a savings account. The Accounting department calculates the rent and saving amounts to be deducted from wages earned by residents.

Table 2 – Deductions from Residents Wages

Deductions	Detail
Program Fees	Fees are 20% of the resident's gross pay with maximum amounts of \$15.33 a day or \$460.00 a month. The program fees are calculated in the APPX system. Residents who don't turn in their paystubs will be assessed a program fee penalty fee of \$10 per day for each day of the pay cycle that the resident is missing wages. If a resident is still employed at PRC from the last pay period end date until release and PRC will not be receiving the paycheck for that time period, program fees are charged at \$10/day for that time period. The resident may bring his or her paystub to the PRRC after release to receive a credit back and collect any difference in the program fee paid and proper program fee calculation.
Resident Savings	Residents are required to allocate 10% of net pay to savings. The savings is calculated by the APPX system.
HC Phase Out	The HC residents report to the PRRC facility twice a week to check in and turn over any monies they earned during the week. PRRC Accounting receives and records the gross pay turned in and the program fee that is charged. HC residents are charged 10% program of gross earnings with maximums of \$10 day and \$300 a month. A deposit of \$100 is retained from HC resident earnings to cover possible equipment damage and program fees at release.

Resident Statements

Residents receive monthly account statements from Accounting that detail all activity (deposits and disbursements) that occurred during the month for their review. These statements include each deposit of pay minus the deductions for program fee and savings as well as any disbursement such as petty cash, check requests, and other disbursements from the residents account.

Closeout Transactions

The Accounting Department closes out the accounts for residents who are released from the PRRC. When the resident's release date from the PRRC is close, then the Resident discusses their account balance with the Accounting staff as documented in the Resident Financial Handout. Any account adjustments including adjustments for their last paycheck may be mailed or given as a live check to the resident if they are present. If the resident has a balance in their account over \$45.00, a check is written to the Resident and mailed to the Resident's home or place of residence. If the resident has a balance below \$45.00, then he/she receives petty cash upon leaving the facility. If the resident is transferred back to a detention center, a check is made payable to the resident and mailed to the detention center housing the resident.

Scope and Methodology

We reviewed the Inmate Escrow Fund Financial Statements, Year-End Cash Reconciliations, Debit Card Program, and resident and inmate account activity as of, and for, Fiscal Year 2013². Accounting staff at MDCD and PRRC provided documentation supporting Resident Account Summary activity, cash reconciliation, financial statements, and debit card program. We inquired about the Keefe Commissary Contract between DOCR and Keefe Commissary Network and observed the operation of the debit card program.

Procedures performed included interviewing key PRRC and MDCD staff involved with Inmate Escrow Fund to obtain an understanding of department policies and procedures regarding escrow accounts, cash reconciliation, debit card program and financial statement preparation. We interviewed the Montgomery County Controller of the Finance Department to gain an understanding of the department oversight over cash reconciliation.

Escrow Fund Account Sample Selection

We selected a statistical sample of inmates and residents that resided in the MDCD and PRRC respectively during the Fiscal Year 2013. We performed detailed testing of account establishment, transactions while incarcerated, and if applicable, account close out that occurred during the fiscal year. The table below details the parameters used to select the statistical sample for each center.

² The scope of this review and the procedures performed were not to the extent required by the AICPA standards to express an opinion on the financial statements

Table 3 – Sample Selection

Center	Total Population	Confidence Level	Precision Range	Presumed Universe Error Rate	Sample size
MCDC	10,317	97%	5%	3%	139
PRRC	844	97%	5%	3%	129

- Confidence Level – The desired assurance that the actual error rate will be within the upper and lower precision limits that are determined from the sample results (assurance that outcomes of testing will closely reflect total errors in actual universe).
- Precision Range – The width of the desired confidence interval for the universe error rate, expressed as a percentage. This parameter refers to the distance between the precision limits. The values for the upper and lower precision limits (and thus the distance between them) are determined from the sample results.
- Presumed Universe Error Rate – The expected error rate for the universe (estimated).

Tables 4 and 5 detail the attributes that were tested as part of this audit:

Table 4 – Attributes Tested for PRRC Escrow Accounts

Attribute	Description
A	Each inmate has their own unique PRSSID number upon entry to the facility
B	Traced amount of individual's account to initial check
C	Cash receipt was deposited in a timely basis
D1	Program fee and savings are properly calculated per pay stub
D2	Traced to supporting documentation
D3	Paycheck was deposited in a timely manner
D4	Cash withdrawals are traced to supporting documentation (petty cash requests, check withdrawal requests, and emergency requests)
E	Traced closeout statement to copy of check, verified balances match

Table 5 – Attributes Tested for MCDC Escrow Accounts

Attribute	Description
A	Each inmate is given a unique ID upon admittance to the DOGR
B	Traced amount of inmates individual account to initial deposit
C	Cash receipt was deposited in a timely basis
D1	Disbursement (Canteen, check request) traced from inmate account to source document.
D2	Traced receipt (kiosk, phone order and online deposits) from individual inmate account to source document
D3	Receipt was deposited timely
E1	Proper documentation for release of funds is properly filled out
E2	Amount placed on debit cards is the remaining balance of the inmate account

Cash Reconciliation

We obtained bank statements and bank reconciliations from the Accountants at MCDC and PRRC for the month of June 2013. We obtained applicable supporting documentation from the PRRC and MCDC Accountants for testing. We confirmed the beginning and ending balances, deposits and checks paid per the June 2013 bank statements to the Fiscal Year 2013 bank reconciliation. We confirmed the outstanding deposits, checks and postdated checks to Bank Statement Detail at 6/30/2013. We performed these procedures for both MCDC and PRRC.

Balance Sheet and Schedule of Cash Receipts and Disbursements

For the MCDC, we judgmentally selected the months of March and June 2013 and requested the supporting documents related to the Schedule of Cash Receipts and Disbursements and Balance Sheet. Included in the provided documents was the general ledger for the month of June, as well as reports drawn from the County's accounting system. We confirmed the balances to the underlying documentation for the months of March and June.

For the PRRC we judgmentally selected the months of March and June 2013. We requested a report drawn by the Accountant from the APPX System, highlighting the total balance for the end of each month's disbursements and receipts. We confirmed the totals to the financial statements and the balances from the report to the Statement of Cash Receipts and Disbursements for March and June.

Debit Card Process

After conducting interviews to gain an understanding of the debit card program policies and procedures, we observed performance of procedures by MCDC staff. On September 9th, 2013 we inquired and observed the following;

- Access to the debit cards is limited to the Accounting staff. The Fiscal Assistant replenishes the number of cards needed to the officer on duty in the Main Control Unit (MCU). After the exchange of debit cards, the Fiscal Assistant and officer on duty both sign the Debit Card Disbursement Log. The officer logs the amount of cards received and date received. The Debit Card Disbursement Log is reviewed by the Fiscal Assistant at random.
- We observed the completion of a Master Card Debit Release Form in the Main Control Unit. We confirmed the MCDC # on the form matched the number on Debit Release Signature Log and Envelope.
- We observed the Fiscal Assistant add money onto a debit card. We observed the selection of the inmate the card would be issued to and the process for loading the inmate account value to the card. We confirmed that the card value printed on the system receipt agreed to the ending Inmate's Account amount.
- We inquired and observed the inventory storage of debit cards located in the Fiscal Assistant's office. The Accounting Section is required to leave 30 cards during weekends and a minimum of 10 per weekday. The Fiscal Assistant uses a minimum

threshold of 100 debit cards before ordering in a new batch (approximately every one and a half months).

- The Fiscal Assistant noted that the Accounting Section should call or email KNC Helpdesk if a debit card has been voided after the day it was issued. The helpdesk ensures a quick solution so a refund check may be issued to the inmate.

Keefe Commissary Contract

We met with the designated contract administrator and MDCD Accountant, who have day-to-day oversight of the vendor to discuss the contract management and monitoring procedures performed. Both stated that they have not had any significant issues with the vendor’s performance. The MDCD Accountant performs periodic site visits to observe the vendor performance while delivering items to the MDCD facilities. We inquired about how the center stays up to date and achieves the performance measures stated in the contract and procedures for validating invoices. The following table outlines the performance measures in the contract and the related monitoring procedures.

Table 6 – Performance Measures on Keefe Commissary Contract

Performance Measures	Comment
Evaluate contractor’s performance on Armored Car Service.	The Commissary staff logs the arrival of the Armored Car Service. The Armored Car Service picks up deposits, and delivers the deposits to the bank. Keefe does not use the County preferred Armored Car Service. However, this was allowed to avoid the 48 hour delay of deposits.
The DOCR Accounting Section measures the 98% or greater Fill Rate per month in inventory/stock for the Commissary kiosks.	If Keefe does not deliver products to the inmates, the inmates complete grievance forms immediately. DOCR Accounting investigates the grievances. Inventory for the Commissary Kiosks are reviewed to determine items to modify, add, or delete.
The Accountant and Contract Administrator ensure the kiosks are operating properly.	IT monitors the kiosks and if any problems occur, the officer on duty notifies the IT Department. The IT Department determines if the problem is minor or major and figures out if they need to fix the problem or need Keefe to send out one of their employees to repair the system in 24 hours.
Contract Administrator monitors price modifications and amendments.	The Accountant noted these topics are discussed during the annual meeting with Keefe. No modifications were made this past year.
The contract experienced turnover since its inception.	The Accountant is notified of any new hires. The Accountant noted that over the last 7 years, she has not seen/heard of any new hires.
Background checks and drug screenings are performed regularly.	Employees are checked and screened by the County on a regular basis.

Performance Measures	Comment
The center reimburses the County for these background checks and screenings.	The Accountant noted that the drug screenings are reimbursed through the Deputy Warden. Keefe submits bills through the Fiscal Services Manager.
Keefe employees are required to wear their uniform and visible identification at the Montgomery County Correctional Facility and Montgomery County Detention Center.	Officers inform the Accountant if employees are not following the dress code. The Accountant occasionally comes to the center on the day Keefe employees deliver the commissary items and can observe employees wearing uniforms and identification.
All violations related to the Contract over the past year are dealt with promptly.	The Accountant is notified of any and all violations relating to the contract.
The collection and transfer of funds to the County's bank is achieved.	The Accountant verifies amounts are properly deposited. The Accountant reviews the check amount for payments to Keefe inside the Keefe Commissary Network. The Accountant also reviews the commission the MCDC should receive in the KCN.

Results

Below is a summary of our findings:

Cash Reconciliation and Review of Financial Statements

Cash Reconciliation

We performed testing on the Cash Reconciliation for MCDC and agreed the beginning and ending balances, deposits and checks paid per the June 2013 bank statements to the FY 2013 bank reconciliation. We also agreed the outstanding deposits, checks and postdated checks to the bank statement detail at 6/30/2013. Lastly, we footed the schedule to ensure clerical accuracy.

We performed the same procedure for the each bank account but, prior period voids were agreed to the Resident Account Summaries of the inmates who had voids on their accounts during the related months.

- We noted as of July 2012 MCDC no longer issued checks out of one bank account and in August 2012 deposit transaction ceased.
- The prior version of the Keefe system did not provide adequate reports to support the outstanding checks. Therefore, a formula, as advised by MCIA, was utilized to calculate the outstanding checks per period. MCIA also advised MCDC to update their software lest be in severe violation. MCDC updated the software as of June, 2012. However, due to the closing of one bank account, the new software has only been applied to the remaining open account.

- When mistakes do happen, any shortcomings or extra money deposited per the bank, are posted to the Over/Short account. The Over/Short account is used to aggregate all deposit discrepancies, which are eventually written off at year end. Using the prior Keefe System, the County would void the deposit in question and repost the deposit matching the deposit amount to the bank statement.

We performed testing on the Cash Reconciliation for PRRC on the bank accounts. CB agreed the Outstanding Checks to the Outstanding Check Summary and the Deposits in Transit to the listing of checks deposited shortly after year end on the July 2013 Bank Statement, without exception.

Review of Balance Sheet and Schedule of Cash Receipts and Disbursements

We agreed all account balances stated on the balance sheet and all cash receipt and disbursement categories disclosed on the respective facility statements to the underlying documentation. We tested inmate activity for the months of March and June for both centers, without exception for MDCD and PRRC respectively.

Montgomery County Detention Center

Table 7 – Summary of Exceptions from MDCD Testing

Attribute Tested	Total Exceptions	Samples Tested Per Attribute	% Exceptions Per Attribute
Attribute A: Each inmate is given a unique ID upon admittance to the DOCR	0	139	0%
Attribute B: Traced amount of inmates individual account to initial deposit	0	116	0%
Attribute C: Cash receipt was deposited in a timely basis	0	116	0%
Attribute D1: Disbursement (Canteen, check request) traced from inmate account to source document.	0	43	0%
Attribute D2: Traced receipt (kiosk, phone order and online deposits) from individual inmate account to source document	1	28	4%
Attribute D3: Receipt was deposited timely	1	28	4%
Attribute E1: Proper documentation for release of funds is properly filled out	1	92	1%
Attribute E2: Amount placed on debit cards is the remaining balance of the inmate account	0	92	0%

1. **Traced cash receipt from individual inmate statement to source document and to determine if cash receipt was deposited timely (Attribute D2 & D3) – Procedural discrepancy in entering deposits into inmate’s accounts.**

In one instance a deposit was incorrectly recorded twice for Sample #52. The first entry of the deposit was recorded with source of funds incorrectly identified. The accounting staff noted the error and attempted to correct the error by recording deposit with source of funds correctly identified. While the second entry properly recorded the deposit, the first entry was never deleted from the system leaving the inmate account with deposit recorded twice.

Table 8 – Clerical Error in Cash Receipt Recording

Sample	Date	Overstatement
52	4/4/2013	336.41
Total		336.41

2. **Proper documentation for release of funds is properly filled out (Attribute E1) – Inconsistent procedure applied to release of inmate’s funds.**

There was one instance in which we could not determine if the inmate’s signature supported the release of the account balance for Sample #21. The inmate being released signed the wrong Debit Card Release Form. An officer overseeing the signing of the form did not prevent or detect the clerical error. The documentation retained supporting the release of funds lacked notation indicating the error that occurred or how the error was resolved. We reviewed corroborating evidence that indicated the inmate was released with the proper amount of funds from their Inmate Account. DOCR procedure states that an incorrect inmate’s signature on the form should have resulted in the debit card being voided or cancelled.

Pre-Release and Re-entry Center

Table 9 – Summary of Exceptions from PRRC Testing

Attribute Tested	Total Exceptions	Samples Tested Per Attribute	% Exceptions Per Attribute
Attribute A: Each inmate has their own unique PRSSID number upon entry to the facility	0	129	0%
Attribute B: Traced amount of individual's account to initial check	0	86	0%
Attribute C: Cash receipt was deposited in a timely basis	0	86	0%
Attribute D1: Program fee and savings are properly calculated per pay stub	13	87	15%
Attribute D2: Traced to supporting paycheck/paystubs	5	87	5%
Attribute D3: Paycheck was	0	87	0%

Attribute Tested	Total Exceptions	Samples Tested Per Attribute	% Exceptions Per Attribute
deposited in a timely manner			
Attribute D4: Cash withdrawals are traced to supporting documentation (petty cash requests, check withdrawal requests, and emergency requests)	0	96	0%
Attribute E: Traced closeout statement to copy of check, verified balances match	0	75	0%

1. Program fee and savings are properly calculated per pay stub (Attribute D1) – Inconsistent application/calculation of program fee fees.

- There were three instances in which residents program fees were applied incorrectly to their accounts. The program fees are calculated in the APPX system based upon the gross pay entered by the PRRC Accounting staff. The system calculates the program fee as either 20% of gross pay or daily maximum amount of \$15.33. The following exceptions were noted:
 - Unable to confirm gross amount used for program fee calculation or correct program fee charge. Supporting pay documentation for Sample #50 detailed gross pay in the amount of \$1,153. 49. Per PRRC Accounting, the resident should have been charged 20% of gross pay for program fee, which would result in a program fee deduction of \$230.70. The actual program fee deducted was \$125.45 which would be based on \$627.25 in gross pay. PRRC Accounting also indicated that the program fee might have been calculated based upon the amount of tips turned in by the resident, however, we have been unable to confirm the amount of tips turned in equal \$627.25 or how program fee was calculated on the remaining regular and overtime pay earned by the resident.
 - Incorrect entry of gross pay into APPX System resulted in program fee overcharge. The entry of the gross pay for Sample 60 was transposed which resulted in gross pay being overstated and a higher rental fee deduction.
 - Calculation error in the APPX system resulting in a \$.10 program fee undercharge. The resident was charged the daily maximum rate for the pay period reviewed. One day was charged at \$15.23 instead of \$15.33 resulting in the undercharge.

Table 10 – Incorrect Calculation of Program Fees

Sample	Date	Rent Fee Per Statement	Correct Program Fee (Auditors Calculation)	PRRC Under / (Over)
50	4/9/2013	\$125.45	\$199.29	\$73.84
60	3/11/2013	\$54.85	\$49.45	(\$5.40)
51	2/13/2013	\$199.39	\$199.49	\$0.10

- There were three instances for which we found inadequate support for determining the program fee charge. While the program fee charged appears appropriate, we do note a weakness in how key documentation/information needed to perform a recalculation of program fee was retained. The three residents had factors related to job status, which impacted the program fee they were charged. However, the documentation retained and initially provided to support pay and program fee amounts recorded in APPX for the residents did not have any details of the other factors that lead us to conclude the correct formula was used to recalculate program fee fees.
 - Sample #83 was employed when starting the program and only had a portion of days worked attributed to being in the PRRC program. In the supporting documentation we reviewed during fieldwork we did not see any evidence that the resident was only to have 4 days of pay attributed to the program and be charged the program fee daily maximum fee for those 4 days. The resident's gross pay for the full pay period was recorded in the APPX system and viewed by us as the amount to use in the program fee calculation. PRRC as part of following up on identified exceptions did provide an Employment Assignment Sheet that indicated the resident start date for employment was 4/25/13.
 - In the supporting pay documentation for Sample #102 we reviewed during filed work or were provide as follow up to exceptions noted we did not see any evidence of the resident in job trials status that defaults to the resident being charged the program fee daily maximum regardless of the pay received. Per PRRC they are informed by word of the month that the resident is on job trial and that verbal notice was used to support the daily maximum program fee charge to the resident.
 - Documentation supporting the pay to Sample #16 indicated pay for hours worked during a full pay period, while the total hours reported as worked were less than 8 hours per day, there was no indication that the hours were not worked over the full pay period. Per PRRC the resident had his work privileges revoked and reestablished on a 2 day trial period during the pay period being tested. Based upon the wages the resident earned, program fee charged should be the daily maximum fee. PRRC did provide an Employment Assignment Sheet, supporting where the resident worked and hourly pay, and Screening Applicant sheet, supporting a revocation from PRRS. In addition PRRC indicated that it was verbally confirmed that the resident only worked 2 days during the pay period.

Table 11 – Lack of program fee calculation support

Sample	Date	Program Fee Per Statement
83	5/6/2013	\$61.32
102	11/23/2012	\$30.66
16	9/24/2012	\$30.66

2. Traced to supporting documentation (Attribute D1) – Discrepancy in regards to the net pay used in calculation of savings.

- In one instance, resident Sample #88 turned in a pay stub along with cash to PRRC Accounting on June 17th then submitted their paycheck on June 19th. Per PRRC Accounting since the amount of cash turned in by the resident was less than the net pay per the resident’s pay stub, the cash amount should be recorded as net pay and used to calculate savings. In addition, savings would be deducted on the day the cash was turned in or when the actual paycheck is submitted. While the gross pay amount from the pay stub and the cash received were properly recorded in APPX, the corresponding savings was not recorded when the cash or paycheck was turned in by the resident. PRRC did not provide an explanation why the savings deduction was not recorded in the APPX system. Lastly, the current PRRC guidance to staff does not explicitly state that savings is only calculated when the paycheck is turned in.

Table 12 – Residents Net Pay and Savings Not Recoded

Sample	Date	Net pay Not Recorded	Savings Not Recorded
88	6/19/2013	\$400	\$40.00

- Resident Sample #54 also submitted a pay stub and cash. While the cash amount turned in was correctly recorded as net pay, the saving amount was recorded based upon the net pay on the pay stub, resulting is an over statement of savings. PRRC agreed the incorrect savings amount was recorded but could not provide an explanation why.

Table 13– Resident’s Net Pay incorrectly included

Sample	Date	Net Pay Recorded	Savings Recorded	Correct Savings	Saving Overcharge
54	3/5/2013	\$68.04	\$9.20	\$6.80	\$2.40

3. Program fee and savings are properly calculated per pay stub and traced to the supporting documentation (Attribute D1 & D2) – Lack of retention of resident pay documentation (pay stubs or paycheck).

In five instances we could not verify resident's gross pay and the calculation of program fees as recoded in APPX to supporting documentation. PRRC procedure is to scan all of the residents pay stubs per each pay period and write the resident's corresponding PRSSID # on the pay stub. PRRC Accounting staff could not provide and did not retain the pay stubs for the seven residents.

Table 14 – Resident Missing Pay Documentation

Sample	Paystubs missing	Total gross pay not verified
6	1	\$482.50
12	4	1,254.80
46	1	3,079.81
64	2	1,260.00
66	1	622.48
Total		\$7,847.84

Sample Evaluation

Sample Results:	MCDC	PRRC
Items in universe	10,317	844
Sample size	139	129
Number of occurrences	2	13
Sample occurrence rate (%)	1.44%	10.08%

Achieved precision limits (confidence specified):	Actual	Actual
Specified confidence level (%)	97%	97%
Lower limit (%)	.1%	5.5%
Upper limit (%)	5.5%	16.9%

Our test results for the MCDC indicate that the “true” error rate (the projected error rate based on the sampling we performed) within the full population would be between the range of .1% - 5.5% of the population or 10 – 567 inmates. Our test results for the PRRC indicate that the true error rate within the full population would be between the range of 5.5% - 16.9% of the population or 46 – 142 inmates.

Other Matters

Per discussion with department management, we noted that the department does not have a formal policy regarding the frequency in which the design and operational effectiveness of internal controls over the escrow accounts are independently reviewed by parties outside of the department. The last independent reviews for the MCDC / MCCF (2002) and PRRC (2005) were approximately eleven and eight years respectfully.

Conclusion

DOCR has adequately designed and implemented procedures and internal controls for the debit card program, management of its Keefe contract, escrow cash balances, and facility escrow accounts for both MCDC and PRRC. Our audit did identify minor inconsistencies in the performance of internal control procedures at MCDC. We also identified, for PRRC, opportunities to improve consistency and documentation of internal control procedures. The findings detailed in this report were not egregious in nature or scope. We believe the recommendations described below will provide DOCR an effective means of addressing the issues outlined in this report.

Recommendations

We recommend that the Department of Corrections and Rehabilitation Director:

1. Assess if action should be taken to ensure inmates due refunds or owe the County fees are contacted and the respective discrepancies noted in this report are resolved.
2. Reiterate with MCDC staff the importance of verifying corrections to escrow accounts when processed to ensure the desired effect is achieved and to retain supporting documentation evidencing error detection and correcting action taken.
3. Enhance PRRC requirements and procedures for documenting factors that impact wages or fees recorded in APPX. DOCR should clearly include key information on the supporting documentation, such as the resident's job status, cash turned in by residents to make it easier to validate the accuracy of fee calculations and amounts detailed on the resident statements.
4. Reinforce with PRRC staff the importance of a thorough review of resident statements in order to detect and correct calculation and recoding errors such as missed recording of net pay or the incorrect savings fee. In addition, ensure written guidance for staff clearly state the requirements for when savings deductions are allowable.
5. Reinforce with PRRC staff the importance of ensuring documentation supporting transactions such as pay support (copies of pay stubs or check) and service fee charges (medical and barber forms) are properly retained in the facility records.
6. Establish and implement a formal policy that requires the periodic review of the escrow accounts by person's outside/independent of the department.

Comments and MCIA Evaluation

We provided DOCR with a draft of this report for formal review and comment on June 26, 2014 and DOCR responded on August 4, 2014. DOCR said it concurred with the report's recommendations and will implement them. (See Appendix C for DOCR response.)

Appendix A - MCDC and MCCF Transactions

The following table lists the types transactions that occur with inmates housed at MCDC or MCCF:

Table A1 – Transactions while Incarcerated

Transaction Type	Transaction Description	Transaction Detail
Receipt	Government Issued Checks	The only checks accepted at the DOCR are issued by federal, state or local governments .
Receipt	Secured Deposits	Family and friends can deposit money into inmate's accounts through the web, telephone, or the Kiosk in the front of the building.
Disbursement	Canteen Purchases	Inmates may place canteen orders at each Kiosk inside their respective Housing Unit. The inmate account is deducted for the value of purchases made. Inmates in the Medical Unit, N11 Unit, and N21 Unit make their canteen request on paper sheets that are submitted for processing. <ul style="list-style-type: none"> • If any of the purchased items are missing at the time of delivery to the inmate, the Keefe employee notes the item, the quantity on the order sheet and total cost of the undelivered item(s) is credited back to the inmates account.
Disbursement	Medical Fees	Once a Medical Request form, DCA-232, is accepted by the medical staff and the inmate receives the medical service, the inmate signs the form and is charged a \$4.00 fee. Twice a month DOCR Accounting collects the request forms and deducts medical service fees from the inmate's account. <ul style="list-style-type: none"> • If an inmate does not sign the Medical Request form indicating receipt of medical services or the medical staff, via email, indicates the inmate did not receive services, DOCR Accounting credits the medical charge back to the inmate's account. • if an inmate is requested to go back for recurring visits on the medical staff's orders, it is DOCR policy that the medical staff notifies the DOCR Accounting Section who then credits the inmate's account for the fee.
Disbursement	Barber Services	Inmates may see the Barber once a week for a haircut. The inmate must complete the Haircut/Beard Trim Request form, DCA-420. Inmate accounts are charged prior to services performed. The inmate signs the receipt prior to receiving their haircut. If the receipt is unsigned then the charge is credited back to the inmate's account.
Disbursement	Inmate Services	Inmate Services only consists of new shower shoes at a cost of \$0.75.

Transaction Type	Transaction Description	Transaction Detail
Disbursement	Indigent Products	The inmate is charged a \$0.01 fee for each qualified indigent item (i.e. toothpaste, toothbrush) ordered from their account. The inmate's account is charged for each item ordered. If the inmate does not have sufficient funds, the amount is written off by the Accountant.
Disbursement	Copy machine	Inmates are charged \$.10 per copy made once they have exceeded their annual limit of copies from the library.
Disbursement	Bus Token	Inmates with escrow account funds less than \$2.00 at his/her release can request from the officer bus tokens. The inmate signs the receipt of the tokens and the officer records the amount of bus tokens given out during the day.

Appendix B - PRRC Transactions

The following tables detail all the types of transactions that could occur with a residents escrow account while at PRRC. .

Table B1 – Transactions Housed or Monitored by PRRC

Transaction Type	Transaction Description	Transaction Detail
Receipt	Residents Outside Pay	Facility residents and residents on Home Confinement (HC) must bring paystubs, checks and any cash that was earned at work to their RS for receipting. Residents that receive direct deposits must withdraw the pay from their bank account and bring their paystub, monthly bank statement and cash withdrawal for receipting to their RS.
Receipt	Residents Inside Pay	Residents that can't find a job have the opportunity to work for the PRRC doing various jobs around the facility. Those residents receive a stipend of \$2 per day for each day worked. A log is kept of all residents that work for the facility and how many days the resident works each month. This log is then sent to the PRRC Accounting office after the end of the month. Accounting records the stipend earned into each resident's account.
Receipt	Cash received at Suspension	If a resident is revoked, suspended, or administratively removed from the facility and he/she has cash on their person, the cash is taken from the resident. The RS receipts the cash and PRRC Accounting records the Cash received as "Cash Received from Suspension" into the Resident's Account.
Disbursement	Petty Cash	Residents may request up to \$45 in cash from their account. Petty Cash request forms must be signed by the resident and RS for approval. Once the signatures are validated, the Accounting staff will pull the requested funds from the Petty Cash Box. The RS distributes the funds to the resident, who must sign the request form to confirm receipt of funds. <ul style="list-style-type: none"> • Any unsigned Petty Cash receipts or petty cash not distributed to residents will be credited back to the resident's account the day it is received.
Disbursement	Check Requests	Residents may request checks to be sent home to pay bills and other miscellaneous expenses. Residents complete the Check Request form with the amount, reason for the check and to whom the check should be written and mailed. The RS documents his or her approval with a signature on the form. The form is sent to Accounting. Either the Accountant or Fiscal Assistant check to verify the resident has sufficient funds to satisfy the request. The accounting staff processes the request by submitting a check request to Capital One to send a check to the designated person for the designated amount.
Disbursement	Bus Tokens	Residents may request to purchase bus tokens from PRRC to

Transaction Type	Transaction Description	Transaction Detail
		be used for transportation to and from work or interviews. The resident completes a bus token request form and submits it to their RS. The RS gives the Resident the requested quantity of bus tokens. The RS forwards the request forms to the PRRC Accounting Department. The Accounting staff deducts the value of tokens purchased from the resident's account.
Disbursement	Medical Fees	Residents may see the doctor for a service charge of \$4.00. A resident completes the request form documenting the reason for the doctor's visit. The form is given to the medical staff, who forwards the form to the PRRC Accounting department. The Accounting staff deducts the visit service fee from the resident's account.
Disbursement	Lost items	Residents are charged a fee when they lose items such as room keys. The Accounting staff deducts the fee for the lost item from the resident account.
Disbursement	Revoked Residents	Residents who break any rule or commit a crime while outside of the facility are revoked from PRRS and are sent back to the Detention Center. If the severity of their crime was minor and they will return to the PRRS, the Accounting Department keeps the resident's account open. If the severity of their crime was major and the resident will not return to the PRRS, the accounting department closes out his/her account and sends the remaining balance through intercompany-mail to the Detention Center.

Appendix C – DOCR Response



DEPARTMENT OF CORRECTION AND REHABILITATION

Isiah Leggett
County Executive

Arthur M. Wallenstein
Director

August 4, 2014

We appreciate the thorough examination of our escrow fund accounts for the Residents at the Pre Release Services and the Inmates at Detention Center for the year ended June 30, 2012. We have reviewed your recommendations carefully and concur with your findings. As a result, DOCR will ensure that any refund owed the Residents or Inmates will be refunded in addition to taking steps to seek reimbursement for any money owed to the County.

DOCR will ensure that the accounting staffs at both the Detention and Pre-Release Centers continue to document transactions that are outside the norm of their daily activities and that occur under special circumstances. Any direct communication from the Residents regarding their funds will be verified and documented.

DOCR accounting staff will ensure that proper documentation occurs including making copies and keeping records of supporting services rendered to the Inmates and Residents and maintaining all source documentation regarding deposits to Inmate or Resident accounts.