



OFFICE OF THE COUNTY AUDITOR

Bill White, J.D.

DuPage County Auditor

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To: James Mendrick, DuPage County Sheriff
From: Bill White, County Auditor *WFW*
Subject: Commissary Account Internal Audit
#22-20
Date: June 24, 2022

Dear Sheriff Mendrick,

Thank you for the comments and additional information you provided on June 16, 2022, in response to the draft Commissary Account Internal Audit issued by my Office on May 31, 2022. I have reviewed your responses and appreciate your attention to the audit recommendations. I have attached your letter to this final Audit Report.

I would like to thank your staff again for their invaluable time and assistance provided during the preparation of this audit. I look forward to working with your Office on future audits.

Best Regards,
Bill White, County Auditor

Attachments

cc: County Board
Nick Kottmeyer, Chief Administrative Officer
Sheryl Markay, Chief Policy and Program Officer
Joan Olson, Chief Communications Officer
Jeff Martynowicz, Chief Financial Officer
Margaret Ewing, Chief Human Resources Officer



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May 31, 2022

Hon. James Mendrick, County Sheriff
DuPage County
Wheaton, IL 60187

Dear Sheriff Mendrick:

The Office of the County Auditor has completed an internal audit of the Commissary Account (Account) maintained by the County Sheriff's Office. The internal audit consisted of examining the internal controls, records, receipts and disbursements of the Account for the fiscal years ended November 30, 2020 and November 30, 2021. The results of the audit are presented herein.

Results

- All examined transactions were found to be consistent with the intent of the Account;
- Significant disbursements from the Account were properly documented;
- The Account custodian should be paid from the Account; and,
- The internal controls related to the Account have been improved since the prior audit.

Objective

The objectives of the audit were to evaluate the procedures related to the processing of Account receipts and disbursements during 2020 and 2021 fiscal years in order to determine that:

- Amounts are properly received, recorded and deposited intact on a timely basis;
- Disbursements are made for allowable purposes, are properly authorized, recorded, and supported by appropriate documentation; and,
- The reconciled bank account balance of the Account and the County's general ledger for the audit period are in agreement.

Background / Audit Scope

The Commissary Account (Account) maintains the earnings derived from inmate commissary purchases at the County Jail. The Illinois Administrative Code County Jail Standards requires that funds in the Account be used for inmate welfare purposes.

The County Sheriff contracts with a vendor who provides a turn-key jail commissary system. The vendor provides an accounting system to administer inmate accounts and supplies the products ordered by the inmates. The County Sheriff changed vendors in November 2020.

The primary source of receipts into the Account is the difference between the price paid for items purchased by the inmates and the item's cost along with commissions received from the phone company for the inmates' use of jail telephones, prepaid phone cards used by inmates for phone calls, and commissions on managed content provided for tablet computers used by inmates. Disbursements from the Account pay for the contracted service providers, supplies purchased from the vendor, and items purchased for the benefit of the inmates.

The Account is held in a non-interest bearing demand deposit account at a local bank. During the audit period, processing day-to-day receipts and disbursements and performing monthly bank account reconciliations were handled by a combination of a Sheriff's Office employee and independent contractors.

The Account was classified as an agency fund for financial reporting purposes in the County's general ledger at the beginning of fiscal year 2020 but was re-classified as a special revenue fund during fiscal year 2021.

The Account had a balance of \$2,383,257 at the beginning of fiscal year 2020. During fiscal year 2020, \$1,132,113 was deposited and \$1,612,042 was disbursed resulting in an ending balance of \$1,903,328. During fiscal year 2021, \$1,251,410 was deposited and \$1,463,931 disbursed resulting in an ending balance of \$1,690,808 in the Account.

The internal audit procedures included reviewing pertinent accounting records, banking transactions, and other supporting documentation related to the deposit and disbursement of Account funds by the Sheriff's Office. Interviews were conducted with the County Sheriff's Office management staff as deemed necessary in order to obtain an understanding of the procedures and internal controls related to the financial transactions of the Account. In addition, expenditures from the Account related to goods and services under contract were examined to ensure compliance with contract terms.

The County Auditor examined the banking records and transactions of the Account on a sample basis for fiscal years 2020 and 2021. There were 118 deposits into the Account and 349 checks and transfers from the Account during fiscal year 2020 and 143 deposits into the Account and 378 checks and transfers from the Account during fiscal year 2021.

Audit Findings and Recommendations

Internal Controls

The County Auditor obtained an overview of the internal controls relative to the Account. The responsibilities of the Account custodian and part-time contractors include:

- Preparing checks written on the Account;
- Signing checks for account disbursements less than \$500 and co-signing checks above \$500;
- Preparing and processing bank account deposits;
- Reconciling the Account bank statement and accounting records;
- Maintaining the Account receipt and disbursement documentation;
- Determining the amounts to be transferred from the Inmate Account to the Commissary Account; and,
- Preparing reports for Sheriff's Office supervisory staff.

Many of the tasks performed by the Account custodian and contractors administering the Account are inconsistent with a proper segregation of duties. A previous internal audit found that there was limited supervisory review of the tasks, records, reports, etc., related to the Account. These factors represent an internal control weakness. A positive compensating control is the supervisory review of the bank reconciliations. Additionally, in May 2021, the County Sheriff hired an accountant with knowledge of the Sheriff's cash accounts to assist with their administration. The County Auditor recommends that the duties related to the administration of the Account be assigned among different individuals so that no one person has sole responsibility for the custody, recording, and authorization of Account funds and transactions.

A previous internal audit performed by the County Auditor noted that the services performed by the Account administrators should be evaluated to ascertain whether they are functioning as independent contractors or if an employer-employee relationship exists. In response to this recommendation, the County Sheriff hired a former contractor as a full-time Account custodian paid from the Sheriff's court security budget (1000-4405) effective December 1, 2020. Currently there are no part-time contractors. It is recommended that the County Sheriff consider hiring additional staff as County employees to assist with the administration of the Account. It is further recommended that the Account custodian's salary and benefits be paid from the Commissary budget (1300-4480) instead of the Court Security budget (1000-4405) by changing the expense coding in the County's ERP system.

There were some procedures documenting the maintenance of Account records, financial transactions, reporting, or supervisory review but these have not been updated for changes within the department. It is recommended that the Sheriff's Office prepare a more detailed, updated procedures manual for the administration of the Account.

Bank Deposits

The total amount of Account deposits made in fiscal year 2020 was \$1,132,113. The majority of the deposits were for reimbursements from the Inmate Account for inmate purchases

and commissions paid to the Sheriff on the sale of phone cards. Inmate reimbursements for phone card sales were \$334,245, or 30% of total deposits, and inmate reimbursements for commissary purchases were \$634,789, or 56% of total deposits. Commissions for phone card sales and tablet usage were \$141,114, or 12% of total deposits with miscellaneous reimbursements for services provided to inmates comprising the balance.

The total amount of Account deposits made in fiscal year 2021 was \$1,251,410. A new Commissary vendor selected in November 2020 changed the procedures related to how commissary sales are reimbursed by the Inmate Account. As a result, inmate reimbursements for phone card sales were \$419,307, or 38% of total deposits, inmate reimbursements for commissary purchases were \$29,181, or 3% of total deposits, and commissions paid directly to the Account were \$390,412, or 35% of total deposits. Commissions for phone card sales and tablet usage were \$233,132, or 21% of total deposits with miscellaneous reimbursements for services provided to inmates comprising the balance.

There were 34 deposits and 84 transfers made into the Account during fiscal year 2020 and 35 deposits and 108 transfers made into the Account during fiscal year 2021. All of the physical deposits processed into the Account by the Account custodian during the audit period were examined. The deposits are taken to the bank three times each week by a Sheriff's Office Deputy who is not involved in the accounting or collection of the funds. All but two deposits were consistent with the nature of the account and no significant exceptions were noted. The two deposits should have been made to a different account under the control of the County Sheriff. These errors were not significant, and they were corrected by bookkeeping staff prior to the monthly reconciliation process.

Account Disbursements

The total amount of checks written on the Account in fiscal year 2020 was \$1,612,042. The majority of the expenditures were for inmate telephone services at \$337,686, or 21% of the total, and commissary items and related services at \$366,519, or 23% of the total. \$469,345, or 29%, was spent for professional services for inmate counseling and mental health programs.

The total amount of checks written on the Account in fiscal year 2021 was \$1,463,931. The majority of the expenditures were for inmate telephone services at \$499,323, or 38% of the total, and professional services for inmate counseling and mental health programs at \$522,401, or 39% of the total.

There were 344 checks written on the Account during fiscal year 2020 including 6 voided checks and 304 checks written during fiscal year 2021 including 4 voided checks. Audit procedures found no significant exceptions related to the voided checks. The remaining 638 checks were examined on a sample basis. No significant exceptions were found with the 128 sample checks.

Account administrators who are paid from the Account for their bookkeeping services prepare the checks given to them, however these checks are reviewed and signed by others. Checks payable to the Account administrators were properly documented and no exceptions were noted.

Bank Statement Reconciliation

Bank statements are prepared in a timely manner and are reviewed by an individual without deposit or disbursement responsibility over the account.

Account Classification

During the audit period, the Commissary Account was re-classified from an agency fund in the general ledger and for external financial reporting purposes to a special revenue fund. This was a result of a prior internal audit recommendation that the Finance Department examine whether the Account should be reclassified as a special revenue fund based on the nature of the financial transactions, the type of expenditures, and the source of the revenues.

The financial transactions are recorded by Sheriff's Office staff in QuickBooks, and deposits and expenditures are made with a bank account held outside of the County Treasurer's administration. Account activity is subsequently reflected in County accounting records via monthly journal entries prepared by Sheriff's Office staff and entered into the County's ERP system by the Finance Department. A review of financial records obtained from the Sheriff's Office showed that Sheriff's Office staff reconcile the journal entries sent to the Finance Department with the County's general ledger and contact the Finance Department when a difference is identified. It was noted that in October 2021, there was a journal entry for \$63,245.98 that the Finance Department entered as voided checks. The difference was actually due to several transactions that were posted during the bank reconciliation process and after the preparation of journal entries by Sheriff's Office staff. The journal entry was corrected at fiscal year-end. It is recommended that the Sheriff's Office review all journal entries prepared by the Finance Department prior to their entry into the County's ERP system.

Contract Administration

The County Auditor examined contracts for goods and services that are paid from the Account. Most of the contracts are for vendors or contractors that provide goods and services for the inmates. As stated previously, differences in amounts between fiscal years is due to a change in the commissary vendor and how transactions are processed, and the hiring of a contractual bookkeeper as a full-time County employee. The type of contracted goods and services and the amounts spent in fiscal years 2020 and 2021 are:

Contracted Service	FY2020	FY2021
Inmate social services	\$399,405	\$415,061
Commissary services	\$397,235	\$21,456
Inmate telephone services	\$285,322	\$499,323
Mental health services	\$110,822	\$115,421
Contracted bookkeeping services	\$55,874	\$19,209
Inmate online legal research services	\$50,256	\$46,068
Chaplain services	\$15,328	\$15,634
Inmate barber services	\$11,644	\$10,428

The Account administrator stated that she maintains a copy of the contracts for the service contractors (barber, bookkeeper, chaplain), DuPage County Health Department, and

JUST of DuPage and reviews invoices for accuracy prior to payment; however, the Account administrator does not maintain a copy of the contracts for legal online services or telephone service vendors and does not verify the rates charged. It is recommended that the Account administrator be provided with all contracts so that the amounts paid to vendors be verified as consistent with the applicable contracts on file with the Sheriff's Office.

Additional audit procedures were performed to verify that amounts paid to contractors were properly reported to the IRS for tax purposes. No exceptions were noted for the 2020 and 2021 tax years.

Summary of Recommendations

- The duties related to administration of the Account should be assigned to more than one individual in order to provide adequate segregation of duties.
- The Account custodian should be paid from the Account instead of from the Sheriff's court security budget.
- The independent contractor status of an Account administrator should be evaluated to determine whether an employer-employee relationship is more appropriate.
- The Sheriff's Office should prepare an updated procedures manual regarding the administration of the Account.
- The Sheriff's Office should review journal entries prepared by the Finance Department prior to their entry into the ERP system.
- It is suggested that the Account administrators be provided with copies of all contracts being paid from the Account and that all payments be verified as being consistent with the applicable contract.

I want to express my sincere appreciation for the generous assistance provided by your Office and your staff. If you have any questions, please contact me.

Sincerely,

OFFICE OF THE COUNTY AUDITOR



Bill White, J.D.
County Auditor

cc: County Board
Nick Kottmeyer, Chief Administrative Officer
Sheryl Markay, Chief Policy and Program Officer
Joan Olson, Chief Communications Officer
Jeff Martynowicz, Chief Financial Officer
Margaret Ewing, Chief Human Resources Officer

JAMES MENDRICK
SHERIFF



EDMOND MOORE
UNDERSHERIFF

June 16, 2022

Honorable Bill White, County Auditor
DuPage County
Wheaton, IL 60187

Auditor White:

I have received your internal audit report dated May 31, 2022, concerning the Commissary Account (Account) and have noted your observations and recommendations. This letter includes additional information and responses.

Auditor recommendation: The duties related to the administration of the account should be assigned to more than one individual in order to provide adequate segregation of duties.

Sheriff's Response: A part-time contract employee was hired as an assistant bookkeeper on May 5, 2022, replacing the assistant who departed November 30, 2021. The limitations on segregation of duties are attributable to the size of the staff, and these are mitigated by the detailed supervisory review of the reconciliation and activity and the low \$500 threshold for dual signatures. Further, the amounts transferred from the Inmate Account to Commissary are derived from reports generated by the stand-alone Inmate Account system and are verified during the reconciliation review process.

Auditor Recommendation: The Account custodian should be paid from the Account instead of from the Sheriff's court security budget.

Sheriff's Response: This employee was coded to court security in error. The salary for the custodian should be coded to the Corrections Division (1000-4410), and an adjustment has been made through Human Resources.

Auditor Recommendation: The independent contractor status of an Account administrator should be evaluated to determine whether an employer-employee relationship is more appropriate.

Sheriff's Response: The reclassification of the assistant as a part-time employee beginning in fiscal year 2023 is under consideration.

Auditor Recommendation: The Sheriff's Office should prepare an updated procedures manual regarding administration of the Account.

Sheriff's Response: The Procedures Manual is being revised to reflect the recent changes to the Commissary Account operations.

Auditor Recommendation: The Sheriff's Office should review journal entries prepared by the Finance Department prior to their entry into the ERP system.

Sheriff's Response: Journal entry procedures recently revised by the Finance Department include Sheriff's Office preparation and entry of journal entries, which are then reviewed and approved by the Finance Department.

Auditor's Recommendation: It is suggested that the Account administrators be provided with copies of all contracts being paid from the Account and that all payments be verified as being consistent with the applicable contract.

Sheriff's Response: The administrators have obtained copies of all contracts and will verify that payments continue to comply with contract terms.

Sincerely,

A handwritten signature in black ink, appearing to read "James Mendrick". The signature is fluid and cursive, with a large initial "J" and "M".

James Mendrick
DuPage County Sheriff