



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – Issued August 27, 2018

Essex Sheriff's Department

For the period July 1, 2015 through December 31, 2016





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Making government work better

August 27, 2018

Sheriff Kevin F. Coppinger
Essex Sheriff's Department
20 Manning Avenue
Middleton, MA 01949

Dear Sheriff Coppinger:

I am pleased to provide this performance audit of the Essex Sheriff's Department. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2015 through December 31, 2016. My audit staff discussed the contents of this report with management of the agency, whose comments are reflected in this report.

I would also like to express my appreciation to the Essex Sheriff's Department for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMBump".

Suzanne M. Bump
Auditor of the Commonwealth

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LIST OF ABBREVIATIONS

COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPD	Civil Process Division
CPEF	Civil Process Enterprise Fund
ERM	enterprise risk management
GAAP	generally accepted accounting principles
IBCF	Inmate Benefit Canteen Fund
ICP	internal control plan
MMARS	Massachusetts Management Accounting and Reporting System
OSA	Office of the State Auditor
OSC	Office of the State Comptroller
PDF	Police Detail Fund
RECC	Regional Emergency Communications Center
SDE	Essex Sheriff's Department

EXECUTIVE SUMMARY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor (OSA) has performed an audit of various activities of the Essex Sheriff's Department (SDE) for the period July 1, 2015 through December 31, 2016.

SDE's newly elected Sheriff, who was sworn in on January 4, 2017, requested this transition audit. Transition audits are typically requested by newly elected officials to obtain an understanding of an organization and any areas needing corrective action and improvement. The conclusions reached in this report refer to office operations in effect during the previous administration.

In this audit, we reviewed the adequacy of SDE's internal control plan (ICP); compliance with the requirements of Chapter 647 of the Acts of 1989 regarding the reporting of any unaccounted-for variances, losses, shortages, or thefts of funds or property to OSA; budgeting and procurement practices; cash receipts and expenditure practices; and the reconciliation process for the Police Detail Fund (PDF), Civil Process Enterprise Fund, Inmate Benefit Canteen Fund, and inmate accounts.

Finding 1 Page <u>10</u>	SDE had inadequate documentation regarding the procurement of \$1,035,383 in goods and services.
Recommendations Page <u>11</u>	<ol style="list-style-type: none">1. SDE's Procurement Department should complete all SDE purchases and complete and maintain required procurement-file records, including evidence of bids or Competitive Procurement Exception Explanation Forms.2. SDE should communicate its procurement policy to all staff members and ensure that all employees who initiate purchases receive training on procurement compliance.
Finding 2 Page <u>12</u>	SDE's ICP had not been updated as required and lacked critical components of internal control.
Recommendations Page <u>13</u>	<ol style="list-style-type: none">1. SDE should request training from the Office of the State Comptroller on how to properly complete an ICP.2. SDE should develop and implement a policy requiring that its ICP be updated annually based on a current department-wide risk assessment and address all components of enterprise risk management.

Finding 3 Page <u>14</u>	SDE did not file a required report on lost inmate funds.
Recommendations Page <u>15</u>	<ol style="list-style-type: none">1. SDE should establish a policy detailing a process for filing a timely report with OSA for all shortages or thefts of funds or property.2. SDE should ensure that all personnel are properly trained and aware of the Chapter 647 reporting requirement for all shortages or thefts of funds or property.
Finding 4 Page <u>15</u>	SDE did not properly administer, and report on, its inventory of fixed assets.
Recommendations Page <u>16</u>	<ol style="list-style-type: none">1. SDE's management should ensure that its inventory staff is trained on fixed-asset policies and procedures.2. SDE should conduct an annual physical inventory of all assets and complete reconciliations of the annual physical inventory results to its asset records.3. SDE's Fiscal Department should maintain a complete record of all SDE assets on file.
Finding 5 Page <u>16</u>	SDE lacked adequate segregation of duties for its funds.
Recommendations Page <u>17</u>	<ol style="list-style-type: none">1. SDE should implement policies and procedures for the processing of its fund accounts.2. SDE should segregate duties for authorizing transactions, recording transactions to the general ledger, and reconciling transactions for its funds or, because of limited personnel, implement closer supervision or more frequent reviews.
Finding 6 Page <u>18</u>	SDE's fund expenditures lacked proper authorizations.
Recommendation Page <u>19</u>	SDE should ensure that all approvals of expenditures are documented.
Finding 7a Page <u>19</u>	SDE did not charge police detail administration fees in many cases; this resulted in an operating loss.
Finding 7b Page <u>19</u>	SDE did not ensure that required documentation was obtained to support officers' detail payments.
Recommendations Page <u>21</u>	<ol style="list-style-type: none">1. SDE should develop policies addressing all business functions of PDF operations, including the collection of an administration fee from all hiring entities to ensure that it charges them enough to support PDF operations.2. SDE should ensure that payments for police details are supported by the required documentation. Officers should complete and return the required work detail slips to support hours worked and obtain the signatures of site supervisors to substantiate those hours.

OVERVIEW OF AUDITED ENTITY

The Essex Sheriff's Department (SDE) was established as an independent state agency on July 1, 1999, after Essex County government was abolished. The Sheriff became an employee of the Commonwealth but remained an elected official and retained administrative and operational control over SDE.

SDE is responsible for running and overseeing all aspects of its facilities, which include its administrative office in Middleton; the Essex County Correctional Facility in Middleton; the Correctional Alternative Center in Lawrence; the Women in Transition Center in Salisbury; and three Offices of Community Corrections in Lawrence, Salisbury, and Lynn.

In addition to managing the operations of its facilities, SDE offers educational and vocational training programs to prepare inmates for life after their incarceration. These courses and training include, but are not limited to, automotive technician training; heating, ventilation, and air conditioning training; graphic arts training; culinary arts training; computer skills training; adult basic education; drug and alcohol counseling; substance abuse treatment; and anger management courses. SDE also operates the Treatment and Recovery from Addictions in Corrections Program: an 80-bed substance abuse treatment program in which members focus on changing behavior, recovering from addictions, and confronting destructive attitudes.

Further, SDE has a Civil Process Division (CPD) that is responsible for executing court orders, including summonses and complaints, subpoenas, and writs of attachment throughout the 34 cities and towns of Essex County. SDE operates two CPD offices (one in Lawrence and one in Salem) with 11 full-time employees: a director, an assistant director, three enforcement deputies, and six clerks. CPD uses deputy sheriffs who are not state employees and are appointed pursuant to Sections 3 and 11 of Chapter 37 of the Massachusetts General Laws to serve legal documents and notices.

SDE oversees the Essex County Regional Emergency Communications Center (RECC) in Middleton, which (1) provides emergency dispatch services for police and fire departments for the communities of Amesbury, Essex, Middleton, Topsfield, and Wenham and (2) answers wireless 911 calls in Essex County, most of Middlesex County, and parts of Suffolk County. The center operates separately from SDE and has its own operating budget, which is subsidized in part by SDE. The Sheriff of SDE serves as an ex officio nonvoting member of the three advisory boards that govern the Essex County RECC.

As of December 31, 2016, SDE had approximately 622 employees. SDE had an inmate population of 1,522 as of that date, and during the audit period, it had an average inmate census of 1,507 inmates. The Essex County Correctional Facility in Middleton has an inmate capacity of 1,260 beds and had an average inmate census of 1,173 inmates during our audit period. The Correctional Alternative Center in Lawrence has a capacity of 336 beds and had an average inmate census of 294 inmates during our audit period. The Women in Transition Center in Salisbury has a 24-bed capacity and had an average inmate census of 40 inmates during our audit period, including inmates out on electronic monitoring.

SDE received state appropriations of \$53,795,787 in fiscal year 2016 and \$53,257,829 in fiscal year 2017 for its operations. It also received \$16,766,627 in fiscal year 2016 and \$14,827,255 in fiscal year 2017 as supplemental state funding in addition to its initial appropriation.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of certain activities of the Essex Sheriff's Department (SDE) for the period July 1, 2015 through December 31, 2016.

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

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Has SDE developed an internal control plan (ICP) that is consistent with the requirements of the Office of the State Comptroller's (OSC's) Internal Control Guide?	No; see Finding 2
2. Did SDE comply with Chapter 647 of the Acts of 1989 by reporting all instances of unaccounted-for variances, losses, shortages, or thefts of funds or property to OSA?	No; see Findings 3 and 4
3. Did the incoming Sheriff have sufficient appropriated funds remaining to properly fund operations and inmate services and programs for the rest of fiscal year 2017?	No; see Other Matters
4. Did SDE ensure that purchased goods and services that totaled \$10,000 or more from a single vendor in a single fiscal year were procured in compliance with its procurement policy?	No; see Finding 1
5. Were SDE's business activities that were related to the Police Detail Fund (PDF) self-sufficient, and did they comply with SDE's cash receipt and disbursement policies and procedures?	No; see Findings 5 and 7 and Other Matters
6. Were SDE's business activities that were related to the Civil Process Enterprise Fund (CPEF) self-sufficient, and did they comply with SDE's cash receipt and disbursement policies and procedures?	No; see Findings 5 and 6 and Other Matters
7. Did SDE comply with its cash receipt and disbursement procedures for the Inmate Benefit Canteen Fund (IBCF) to ensure that funds were used for inmates' benefit?	No; see Findings 5 and 6
8. Were SDE's inmate account balances reconciled as of December 31, 2016?	Yes

To achieve our audit objectives, we gained an understanding of the internal controls we determined to be relevant to our audit objectives by reviewing applicable laws, regulations, and agency policies and procedures, as well as conducting inquiries with SDE staff and management. We evaluated the design and effectiveness of controls over budgeting and procurement, and we determined whether they operated as intended during the audit period.

Additionally, we performed the procedures described below.

ICP

We obtained and reviewed SDE's current ICP (dated December 2016) to determine whether it met OSC's compliance requirements, including the eight components of enterprise risk management.

Chapter 647

To determine whether SDE complied with Chapter 647 reporting requirements, we determined whether any reports were filed; determined whether any reportable incidents of variances, losses, shortages, or thefts of funds or property occurred that had not been reported to OSA; and obtained and reviewed SDE's internal affairs report on an inmate's missing funds. We consulted OSA records to determine whether SDE submitted any Chapter 647 reports during the audit period. We requested SDE's inventory list for fixed assets to test whether an annual physical inventory was performed during the audit period to determine whether any fixed assets were determined to be lost or stolen.

Budgeting

We requested and obtained SDE's budget and financial reports from the audit period. We performed analytical procedures to review budget and expenditure totals as of December 31, 2016 to assess whether the incoming Sheriff had received sufficient funds to cover expenses for the last six months of fiscal year 2017. We then compared expenditure totals for the first six months of fiscal years 2016 and 2017 to assess spending patterns. We completed a historical analysis for fiscal years 2015 through 2017 to assess budget appropriations, supplemental funds, and expenditures. We requested and reviewed financial data regarding activity costs that were not part of SDE's core function but were supplemented by its main operational budget.

Procurement

We obtained from the Massachusetts Management Accounting and Reporting System (MMARS) database a list of vendors from SDE's appropriation account who were paid a total of \$10,000 or more in a single fiscal year between July 1, 2015 and December 31, 2016, and we selected a nonstatistical judgmental sample of 19 vendors from a population of 93 to determine whether procurements were conducted in accordance with SDE policies. We requested the procurement files for these vendors to assess whether procurements were properly conducted and whether required procurement-file documentation was maintained.

PDF

We examined a judgmentally selected nonstatistical sample of 8 of 18 monthly account reconciliations to bank statements for discrepancies, unreconciled variances, and timeliness of completion.

We judgmentally selected a nonstatistical sample of 60 police details (paid a total of \$21,592) out of 1,615 (paid a total of \$571,197) during the audit period. We determined whether the billing documentation and amounts paid by the hiring companies agreed with the general ledger entries; the receipt amounts agreed with deposit records and bank statements; and SDE administration fees were properly collected.

We selected a random nonstatistical sample from the general ledger of 50 disbursements (totaling \$32,572) from of a population of 784 disbursements (totaling \$608,044). The 50 disbursements represented 117 work details performed. We requested and reviewed supporting documentation to determine whether the disbursements were supported by adequate documentation; the hours worked and payment amounts agreed with the work detail slips; and the work detail slips were properly signed.

We requested and analyzed all documentation of payroll activity for the PDF to determine whether administrative payroll processing fees were properly charged to the fund. We reviewed SDE payroll records for the audit period to determine whether SDE had collected sufficient funding from receipts to cover Medicare and Social Security tax payments it was required to pay for its share of employee taxes.

CPEF

We examined a judgmentally selected nonstatistical sample of 8 of 18 monthly account reconciliations for discrepancies, unreconciled variances, and timeliness. We selected a random nonstatistical sample of

60 receipts (totaling \$5,021) out of 13,450 receipts in the CivilServe¹ database (totaling \$1,450,418). We reviewed whether the receipt dates and amounts agreed with the deposit records and bank statements to determine whether the receipts were properly processed and deposited. We selected a random nonstatistical sample of 50 expenditures (totaling \$115,182) out of 759 expenditures from the general ledger (totaling \$1,575,327) and reviewed their supporting documentation to determine whether they were supported by adequate documentation and properly authorized.

IBCF

We examined a judgmentally selected nonstatistical sample of 8 monthly account reconciliations, out of 18 performed during the audit period, for discrepancies, unreconciled variances, and timeliness. We judgmentally selected a nonstatistical sample of 15 receipts (totaling \$930,651) out of 97 (totaling \$2,450,652), reviewing whether the receipts were accurate and properly processed based on the supporting documentation. We selected a random nonstatistical sample of 50 expenditures (totaling \$200,391) out of 822 (totaling \$2,565,646). We reviewed their supporting documentation to determine whether they were reasonable, properly approved, and supported by adequate documentation and whether they benefited the inmates.

Inmate Accounts

We reviewed the December 31, 2016 account reconciliation completed by the Keefe Commissary Group, the third-party vendor hired to perform inmate commissary services, for unreconciled variances.

Data Reliability

We obtained general ledger data for the PDF, CPEF, and IBCF from QuickBooks, SDE's electronic accounting system for these funds. We conducted interviews and observations and determined whether authorized users had access to these systems. To determine the reliability of the data, we traced certain electronic transactions for the IBCF receipts and the PDF, CPEF, and IBCF expenditures to original source documents and traced original source documents for the PDF, CPEF, and IBCF receipts to QuickBooks electronic transactions. We compared these documents for accuracy. We determined that the data from the system were sufficiently reliable for the purposes of this audit.

1. CivilServe is SDE's system of record for Civil Process Division cases and fees charged.

To determine the reliability of data obtained from the CivilServe database, we conducted interviews and observations and determined whether authorized users had access to the system. To determine the reliability of the data, we traced 60 randomly selected original case records to the electronic case records. We determined that the data from the system were sufficiently reliable for the purposes of this audit.

We used financial data from MMARS detailing SDE's general expenditures from its appropriated funds. Based on our prior assessment of MMARS² and our current comparison of source documentation with MMARS information, we determined that the information obtained from MMARS for our audit period was sufficiently reliable for the purposes of our audit work.

Whenever sampling was used, we applied a nonstatistical approach, and as a result, we were not able to project our results to the entire population.

2. In 2014, OSA performed a data reliability assessment of MMARS. As part of this assessment, we tested general information technology controls for system design and effectiveness. We tested for accessibility of programs and data as well as system change management policies and procedures for applications, jobs, and infrastructure.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. The Essex Sheriff's Department had inadequate documentation regarding the procurement of \$1,035,383 in goods and services.

During the audit period, the Essex Sheriff's Department (SDE) did not maintain contract procurement documentation as required, document exemptions from those requirements on a Competitive Procurement Exception Explanation Form, or consistently complete a Standard Contract Form signed by the Sheriff and the vendor. As a result, the Commonwealth cannot be certain that these procurements were conducted openly and fairly or that SDE obtained these goods and services at the best possible value.

SDE has a Procurement Department that is responsible for procuring all goods and services for SDE and maintaining procurement-file documentation. We sampled 19 vendor procurement files with expenditures exceeding \$10,000 each for the period July 1, 2015 through June 30, 2016 and/or the period July 1, 2016 through December 31, 2016. We tested the files for compliance with SDE's procurement policy regarding required procurement-file documentation, including evidence of competitive procurements. Our review noted that 10 files were for procurements from vendors on state contracts. An 11th procurement file reviewed was for legal services. Legal services are exempt from being competitively procured, but SDE did not document the exemption using a Competitive Procurement Exception Explanation Form. We noted the following issues with the other 8 files reviewed: 2 files lacked details of negotiated terms and conditions; 4 files lacked evidence of being competitively procured, including Invitation for Response forms; and 5 files lacked the Commonwealth Terms and Conditions form and a Standard Contract Form signed by both the Sheriff and the vendor.

Authoritative Guidance

Section .06 of SDE's Policy Governing the Procurement of Commodities and/or Services lists SDE's contract documentation requirements for all purchases:

All acquisitions of Commodities and/or Services must be competitively procured unless the acquisition qualifies as one of the exceptions listed under section .05, Competitive Procurement Exceptions, of this policy. . . .

1. *Procurement File: A Sheriff's Office shall maintain a paper or electronic Procurement file for each Procurement of Commodities and/or Services. The file shall contain the original, copies or the file location of the [Invitation for Response] and data or other information*

relevant to the Procurement and selection of a Contractor, the executed Contract form(s), correspondence with the Contractor and any applicable approvals or justifications.

Section .07(2) of the policy states,

- b. Commonwealth Terms and Conditions: An authorized signatory of a Bidder must execute a Commonwealth Terms and Conditions, which is executed only once and must be filed as prescribed by [the Office of the State Comptroller]. A Commonwealth Terms and Conditions will be incorporated by reference into and shall apply to any Contract for Commodities and/or Services that is executed by the Bidder and Sheriff's Office.*
- c. Standard Contract Form: An authorized signatory of the Contractor and the Sheriff's Office must execute a Commonwealth of Massachusetts Standard Contract Form for all Procurements under this policy.*

Section .05(11) of the policy states that contracts with lawyers are exempt from competitive procurement requirements but that a Competitive Procurement Exception Explanation Form must be completed and kept on file.

Reasons for Noncompliance

SDE's management stated that the prior administration did not enforce its procurement policy and decentralized the procurement process, allowing people who lacked knowledge of SDE's procurement requirements to procure goods and services without the involvement of the Procurement Department. As a result, the Procurement Department did not receive the required procurement documents for its file. SDE's current management also told us that the former Sheriff completed contract procurements without using the Standard Contract Form. Further, SDE's current management stated that procurement files were all hard copies and some might have been destroyed in a flood at the Salisbury Office of Community Corrections, where the records were in storage. However, SDE could not definitively state which records were lost.

Recommendations

1. SDE's Procurement Department should complete all SDE purchases and complete and maintain required procurement-file records, including evidence of bids or Competitive Procurement Exception Explanation Forms.
2. SDE should communicate its procurement policy to all staff members and ensure that all employees who initiate purchases receive training on procurement compliance.

Auditee's Response

It has been recognized by SDE senior staff that consistency and record-keeping of required procurement documentation has been an exposure to the new administration. Corrective action includes having hired a new seasoned Procurement Director who brings extensive experience in CommBuys, large-scale procurements, and internal control compliance. Additionally, SDE is presently piloting a procurement management module within an open source client relationship management (CRM) software suite that will streamline requesting goods and services, manage micro-budgets within the department, dramatically increase transparency into procurement, and serve as a digital repository for all procurement related documentation. There will be systemic checks and balances that will block purchases that lack supporting documentation. Additionally, each procurement file will be noted as to how the good/service was competitively procured (i.e., CommBuys solicitation, statewide contracts, quotes). Any purchase that is not a competitive procurement will include the Competitive Procurement Exception Explanation Form signed by an authorized signatory of the department.

Auditor's Reply

Based on its response, SDE is taking measures to complete and maintain required procurement-file records, but it should also ensure that staff members are aware of its procurement policy and that all employees who initiate purchases receive training on procurement compliance.

2. SDE's internal control plan had not been updated as required and lacked critical components of internal control.

SDE did not develop an internal control plan (ICP), an agency-wide document that summarized risks and controls for all of its business processes, in accordance with state guidelines. Without an adequately documented system of internal controls, including a department-wide risk assessment, SDE's management could not measure, prioritize, and manage the relevant risks to achieving SDE's mission.

Specifically, SDE did not complete annual updates to its ICP, ensure that its ICP contained a department-wide risk assessment that included the risk of fraud, or consider all components of enterprise risk management (ERM) as required by the Office of the State Comptroller (OSC). SDE personnel stated that the ICP was updated in December 2016 in anticipation of the new Sheriff; however, before then, the ICP had not been updated for several years. In addition, the current SDE ICP primarily addresses financial activity, not the agency's mission or goals.

Authoritative Guidance

OSC's June 2015 Internal Control Guide stresses the importance of internal controls and the need for departments to develop ICPs based on their missions and goals. To comply with OSC's internal control

guidelines, an ICP must contain information on the eight components of ERM set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its document *Enterprise Risk Management—Integrated Framework*, or COSO II. The eight components are internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication, and monitoring. COSO guidance states that all components of an internal control system must be present, functioning properly, and operating together in an integrated manner in order to be effective. In addition, OSC's Internal Control Guide requires ICPs to contain a risk assessment that includes the risk of fraud.

Reasons for Noncompliance

SDE did not have any internal controls or policies regarding timely completion of a complete ICP.

The employee responsible for completing the ICP stated that, under the previous administration, he did not receive proper training on completing a compliant ICP. He also stated that the prior SDE administration did not make completing all aspects of the ICP properly a priority.

Recommendations

1. SDE should request training from OSC on how to properly complete an ICP.
2. SDE should develop and implement a policy requiring that its ICP be updated annually based on a current department-wide risk assessment and address all components of ERM.

Auditee's Response

The Coppinger administration has begun updating and creating new policies that provide definitive guidance of past practices that this audit has deemed to be departmental exposures. SDE has hired a new Chief Financial Officer with prior state experience at the Executive Office for Administration and Finance and the Office of the Comptroller, who has been tasked with creating a new Internal Control Plan from the ground up. SDE's intention is to compile a thorough and robust ICP that encompasses input from all disparate business areas within the department, to identify and prioritize risk within the organization, not just from a fiscal perspective, but to include all operational exposures. SDE anticipates being fully compliant by the end of calendar year 2018. SDE will continue to submit annually the Comptroller's Internal Control Questionnaire (ICQ).

Auditor's Reply

Based on its response, SDE is taking measures to ensure that it properly completes an ICP, but it should also develop and implement a policy requiring that the ICP be updated annually, in addition to submitting the Internal Control Questionnaire annually.

3. SDE did not file a required report on lost inmate funds.

SDE did not immediately report lost inmate funds totaling \$624 to the Office of the State Auditor (OSA) as required by Chapter 647 of the Acts of 1989. Because SDE did not immediately report the loss of these funds, OSA could not review the matter and determine the circumstances and potential internal control weakness that contributed to, or caused, the loss. In addition, OSA was not given the opportunity to make recommendations to SDE to reduce the likelihood of future losses.

While booking an inmate into the jail, SDE Intake Unit personnel took possession of the inmate's funds and recorded the amount in SDE's records. However, the actual funds were never processed to the inmate's account and could not subsequently be located within the Intake Unit. SDE's Internal Affairs personnel conducted an investigation and the funds were reimbursed to the inmate on September 27, 2016. SDE filed the required report with OSA on August 15, 2017, after the audit team brought the matter to the attention of SDE officials.

Authoritative Guidance

Section F of Chapter 647 of the Acts of 1989 states,

All unaccounted for variances, losses, shortages or thefts of funds or property shall be immediately reported to the state auditor's office, who shall review the matter to determine the amount involved which shall be reported to appropriate management and law enforcement officials.

Reasons for Noncompliance

SDE Internal Affairs personnel told us that they were unaware that the theft or loss should have been reported to OSA. SDE did not have a policy communicated to all employees that established procedures for reporting all shortages or thefts of funds or property to OSA.

Recommendations

1. SDE should establish a policy detailing a process for filing a timely report with OSA for all shortages or thefts of funds or property.
2. SDE should ensure that all personnel are properly trained and aware of the Chapter 647 reporting requirement for all shortages or thefts of funds or property.

Auditee's Response

While SDE completed a well-documented Internal Affairs investigation into this referenced loss, SDE did indeed neglect to report this isolated incident. Upon recognizing this oversight, SDE then filed the Chapter 647 report with the Office of the State Auditor. To prevent a future failure to report, SDE's Fiscal Division will establish a Policy and Procedure within its Internal Control Plan to ensure that the Office of State Auditor (OSA) is advised in a timely manner of any and all shortages or theft of funds and property. Additionally, SDE will coordinate with the Department's Training and Staff Development Division to ensure that all appropriate SDE personnel receive training in OSA's Chapter 647 reporting requirements.

4. SDE did not properly administer, and report on, its inventory of fixed assets.

SDE did not conduct an annual physical inventory for its generally accepted accounting principles (GAAP) and non-GAAP assets during the audit period; the agency does not know when the last inventory was completed. SDE's management provided inventory lists, which were kept by several departments. Some lists were dated 2014; others were dated 2017. The SDE Fiscal Department did not have a complete list of all SDE assets. Without performing and documenting an annual physical inventory, SDE cannot ensure that its assets are properly safeguarded against loss, theft, and misuse.

Authoritative Guidance

The Asset Management section of SDE's ICP states, "The Fiscal department will conduct an inventory of assets annually." In addition, the OSC Fixed Assets—Accounting and Management Policy, issued on July 1, 2004 and revised November 1, 2006, states,

*There shall be a **reconciliation of the fixed asset inventory** against the books and records maintained by the Department, either on the Fixed Asset Subsystem or other documented methods. This reconciliation is to be done, at a minimum, on an annual basis.*

Reasons for Inadequate Controls

SDE officials told us that SDE's prior management had not taken responsibility for SDE's inventory to ensure compliance with policy requirements and SDE's ICP requirements for an annual physical inventory.

Recommendations

1. SDE's management should ensure that its inventory staff is trained on fixed-asset policies and procedures.
2. SDE should conduct an annual physical inventory of all assets and complete reconciliations of the annual physical inventory results to its asset records.
3. SDE's Fiscal Department should maintain a complete record of all SDE assets on file.

Auditee's Response

Since this audit, SDE has updated and created an all-inclusive and whole-department inventory of assets. Additionally, SDE intends to link asset inventory to the aforementioned CRM software suite. The result will be total transparency into the entire life-cycle of an asset, including tagging, value, description, locating, and surplus or destruction date. Any additions, deletions or location changes will be recorded as they occur. A comprehensive fixed asset inventory audit will occur annually.

Auditor's Reply

Based on its response, SDE is taking measures to maintain a complete record of all its assets on file and conduct an annual physical inventory, but it should also ensure that its inventory staff is trained on fixed-asset policies and procedures.

5. SDE lacked adequate segregation of duties for its funds.

SDE lacked adequate segregation of duties for its Inmate Benefit Canteen Fund (IBCF), Civil Process Enterprise Fund (CPEF), and Police Detail Fund (PDF). As a result, SDE could not be certain that funds were adequately protected from potential theft, loss, or misuse.

In our review of internal controls over the IBCF and CPEF, we found that one person maintained the general ledger, processed receipt records, authorized and processed disbursements from the funds, and completed the monthly account reconciliation. Another person had sole responsibility for the PDF, including receiving receipts and making bank deposits, processing payment documentation for the detail

officers, maintaining the general ledger, and completing monthly bank statement reconciliations. There was no evidence of any oversight of these two people.

Authoritative Guidance

Section 10.04 of OSC's June 2015 Internal Control Guide states,

Management should divide or segregate key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for:

- *authorizing transactions,*
- *processing and recording them,*
- *reviewing the transactions, and*
- *handling any related assets or process so that no one individual controls all key aspects of a transaction or event.*

Reasons for Inadequate Controls

SDE lacked written policies and procedures for the processing of the IBCF, PDF, and CPEF. SDE management stated that there were not enough employees to process the funds, which resulted in the lack of segregation of duties.

Recommendations

1. SDE should implement policies and procedures for the processing of its fund accounts.
2. SDE should segregate duties for authorizing transactions, recording transactions to the general ledger, and reconciling transactions for its funds or, because of limited personnel, implement closer supervision or more frequent reviews.

Auditee's Response

SDE has historically struggled with maintaining minimum staffing thresholds, due to budget restraints. Other Sheriff departments with similar or lesser inmate populations typically have double or more administrative and finance staff. That said, the individual responsible for reconciling Civil Process, Police Detail, and Inmate Canteen, will now share this responsibility with a newly hired Budget Analyst and a soon to be hired Assistant Budget Director. This cross-training will alleviate this compliance issue. Additionally, internal auditor roles will be added to other members of the staff for periodic independent review of activities of these accounts.

Auditor's Reply

Based on its response, SDE is taking measures to segregate duties for authorizing, recording, and reconciling transactions. However, it should also implement policies and procedures for the processing of its fund accounts.

6. SDE's fund expenditures lacked proper authorizations.

The IBCF and CPEF expenditures that we tested lacked proper approvals. Because SDE did not ensure that proper approvals were obtained for all expenses, there was a higher-than-acceptable risk that its funds could be misappropriated or expended improperly and that these issues could have gone undetected.

IBCF

SDE did not ensure that expenditures were approved before processing them. We reviewed a sample of 50 expenditures, totaling \$200,391. Of the 50 expenditures we examined, 22 (44% of the 50, totaling \$47,120) lacked approval. The expenditures that lacked approval included payments to a translation company and payments for office supplies.

CPEF

SDE did not ensure that expenditures were approved before processing them. We reviewed a sample of 50 expenditures, totaling \$115,182. Of the 50 expenditures we examined, 22 (44% of the 50, totaling \$21,940) lacked approval. The expenditures that lacked approval included travel reimbursement, employee training, and payments to a telecommunications company.

Authoritative Guidance

SDE's ICP requires that department heads approve purchasing requisitions and that the Sheriff or the Sheriff's designee approve and sign purchase orders for the department.

Reasons for Inadequate Controls

According to SDE management, the prior Sheriff allowed certain employees to complete purchases based on his verbal approval without procuring through the Purchasing Department or getting department head approval. SDE management told us that the new administration did not continue this

practice and implemented required approvals by department heads and the chief financial officer before purchases.

Recommendation

SDE should ensure that all approvals of expenditures are documented.

Auditee's Response

SDE recognized a department wide deficiency regarding expenditures and upon transition took immediate action. Fund expenditure authorizations are now subject to a regulated and stricter PDF workflow with digital signatures. Record keeping has been dramatically improved as a result. This process will be further mandated by the implementation of the aforementioned CRM software suite and will be part of the overall digital file for all purchases.

7. SDE did not properly administer its police detail operation.

SDE did not properly administer its police detail operation; specifically, it did not uniformly assess a 10% administration fee to all hiring entities, and this resulted in revenue being lost and the PDF operating at a loss. In addition, SDE did not obtain required supporting documentation for police details. As a result, SDE could not ensure the solvency of the PDF, and without the proper documentation, SDE could not be certain that officers were paid correctly for all details worked.

a. SDE did not charge police detail administration fees in many cases; this resulted in an operating loss.

SDE can charge an administration fee of 10% to hiring entities for police details to cover SDE's administrative expenses; however, in many cases the administration fee was not charged. We selected 60 detail payments and found that for 35 of them, SDE did not charge an administration fee when it could have done so. This resulted in \$1,255 of potential lost revenue. This administration fee is intended to cover payroll expenses. Without the administration fee income, SDE is likely to deplete the PDF and require subsidies from its appropriated funds to continue to operate. The PDF operated at a loss during our audit period; it began with a balance of \$22,211.26 on July 1, 2015 and had been reduced to \$1,555.79 as of December 31, 2016.

b. SDE did not ensure that required documentation was obtained to support officers' detail payments.

SDE did not ensure that required documentation was obtained to support officers' detail payments. Specifically, in our review of documentation for 117 work detail payments to officers, we found that

some lacked either a police work detail slip or the signature of a site supervisor. We noted the following issues:

- Of the 117 police work detail slips requested, 99 were provided. Two of the slips corresponded to work details that were ultimately canceled. Sixteen (14%) could not be provided.
- One of the 99 police work detail slips provided did not include hours worked.
- Nineteen (19%) of 99 police work detail slips were not signed by the site supervisor.

Authoritative Guidance

SDE's Police Details Unit Coordinator Procedures list the entities that pay the 10% administration fee, but do not state specifically what the fee is for or how SDE will fund the Police Detail Unit when an entity is not charged the fee. However, the procedures state, "Most city/state funded or community type details are exempt from admin/service fees."

The Government Finance Officers Association, whose website states that its "mission is to advance excellence in state and local government financial management," has written a best-practice document titled "Establishing Government Charges and Fees." This document gives recommendations for developing charges and fees, stating that governments should "calculate the full cost of providing a service in order to provide a basis for setting the charge or fee" and "review and update charges and fees periodically." Although SDE does not have to follow this guidance, we feel it would be a best practice to help SDE determine how much to charge hiring entities for police details to ensure that it covers its cost of operating the PDF.

In addition, Section 229.08 of SDE's Paid Police Details policy states,

To ensure compensation you must complete the detail form and reflect the accurate time of arrival, departure, and actual hours worked. The site foreman and then the detail officer must sign the detail form.

Reasons for Improper Administration

SDE's policies for police details did not address the collection of administration fees. According to the police detail coordinator, the administration fee is a negotiated charge and only hiring entities willing to pay the fee are charged.

The police detail coordinator told us that SDE policy required officers to complete and submit signed work detail slips. However, the officers do not always provide the slips to the police detail coordinator and cannot always get a site supervisor's signature. If a hiring entity pays SDE for the police detail without disputing the hours worked by an officer, the police detail coordinator pays the officer despite not getting work detail slips that are signed by the site supervisor.

Recommendations

1. SDE should develop policies addressing all business functions of PDF operations, including the collection of an administration fee from all hiring entities to ensure that it charges them enough to support PDF operations.
2. SDE should ensure that payments for police details are supported by the required documentation. Officers should complete and return the required work detail slips to support hours worked and obtain the signatures of site supervisors to substantiate those hours.

Auditee's Response

The Coppinger administration recognized immediate concerns regarding the police detail operation. Several improvements have been implemented since transition to ensure proper documentation, accountability and oversight as a result of on-site auditor discussions. An annual independent accounting assessment will be performed to highlight further operational improvements if needed.

- a. With this critical feedback from OSA, the police detail operation will undergo a transformation that includes: reconciliation responsibilities being shifted to SDE Finance and definitive guidelines regarding uniform collection of administrative fees to make this operation self-sustaining.*
- b. SDE will implement a new policy and procedure for detail operation that will require officer's detail slips to be signed by a supervisor and proper supporting documentation be submitted prior to officer's detail payments being made.*

OTHER MATTERS

Funding Concerns

During our audit, we reviewed the budgetary activities of the Essex Sheriff's Department (SDE) to determine whether funds were sufficient to meet its obligations for the second half of fiscal year 2017. As of December 31, 2016, SDE had spent approximately 64% of its \$53,257,829 budget, leaving the incoming Sheriff with \$19,075,413 for the rest of the fiscal year. During the second half of fiscal year 2017, SDE incurred \$33,902,668 in expenses, which necessitated supplemental appropriations of \$14,827,255 to meet the department's operating needs.

As part of the Commonwealth's annual budgetary process, all agencies are required to prepare budgetary estimates outlining anticipated expenditure levels. During fiscal year 2016, SDE initially requested funding of \$61,017,744 to cover its operating and administrative costs, but it only received a state appropriation of \$53,795,787. For fiscal year 2017's operating and administrative costs, SDE requested funding of \$64,639,622 but only received \$53,257,829. To address concerns raised by the incoming administration, we reviewed the first six months of each fiscal year of the audit period to determine whether the portion of its appropriated budget SDE expended in the first half of fiscal year 2017 was comparable to spending patterns in previous years. We found that 71% of the budget was expended during the first six months of fiscal year 2016 and 64% of the budget was expended during the first six months of fiscal year 2017.

In fiscal years 2016 and 2017, SDE's expenditures exceeded its budget appropriation. As a result, SDE has relied on supplemental budgets, which it may or may not receive in the future.³ In fiscal years 2015 and 2016, SDE did not receive supplemental funding that fully covered its expenditures. As a result, prior year deficiency chargebacks⁴ were paid from the budgets of fiscal years 2016 and 2017, further affecting the funds available for those years. The following table summarizes the fiscal year 2016 and 2017 budget requests by SDE, original appropriations, supplemental appropriations, expenditures made, and amounts of each year's expenditures that represented prior year deficiency chargebacks.

3. For fiscal years 2016 and 2017, the state Legislature passed supplemental budgets that included reserve funding appropriations for the Sheriffs' Offices.

4. Prior year deficiency chargebacks are expenditures not funded in the prior year that are forwarded to the current year for payment and are included in the current year's expenses.

	Fiscal Year 2016	Fiscal Year 2017
Initial Budget Request by SDE	\$61,017,744	\$64,639,622
Original Appropriation	\$53,795,787	\$53,257,829
Supplemental Appropriations	\$16,766,627	\$14,827,255
Total Available Funds	\$70,562,414	\$68,085,084
Total Expenditures*	\$70,562,414	\$68,085,084 [†]
Prior Year Deficiency Chargebacks	\$5,058,324	\$886,187

* Unpaid expenditures are not included in the total expenses incurred for the year; rather, they are identified as prior year deficiency chargebacks in the next fiscal year's expenditures.

† In fiscal year 2018, SDE paid a prior year deficiency chargeback of \$11,519, representing fiscal year 2017 expenses for which it did not receive sufficient appropriations in fiscal year 2017.

SDE used its operating appropriation to supplement other department activities, further increasing the budget deficiency. For the period July 1, 2015 through December 31, 2016, SDE used \$1,021,673 for Civil Process Division administrative employee salaries; an estimated \$51,038 for the salary of the Police Detail Fund coordinator; and \$1,928,967 for administrative staff salaries and costs at the Essex County Regional Emergency Communications Center (RECC), which has its own operating budget and funding sources.

During our audit, SDE's incoming administration implemented several initiatives, including a review of staff positions and operations, a review of longstanding vendor contracts, an emergency fiscal plan, and a comprehensive cost control plan, in an effort to contain costs and achieve budget savings. The initiatives included reducing staffing and overtime hours by ending the practice of assigning correctional officers to transport inmates from local police departments; implementing monitoring and authorization controls over correctional officers' overtime work; and prioritizing staff positions and operations.

Auditee's Response

SDE appreciates the recognition of the insufficient funds necessary to maintain departmental operations upon Sheriff Coppinger's transition. SDE concurs that department-requested budget allocation and Administration and Finance's . . . budget recommendations are not consistent with legislatively authorized funding levels. Despite SDE efforts to cut spending (e.g. reducing SDE operating account contributions to the operation of the RECC by nearly \$2 [million], a \$700,000+ savings in overtime due to improved oversight), our [General Appropriation Act] funding levels are consistently noncommensurate with our operational needs. Reliance on supplemental funding at the end of the fiscal year (or later) acts as an obstacle to budgeting and prohibits routine encumbering in MMARS. . . .

In regards to SDE's use of its operating appropriation to support department activities that were not among core functions, some clarification on SDE's part is necessary.

- *We anticipate that the SDE contribution to the RECC will be \$0 in FY20, as it is the intention of The Executive Office of Public Safety to take over all funding for the RECC, thereby addressing this comment.*
- *The Police Detail account is going to undergo an overhaul and we anticipate this will no longer operate at a loss by FY20.*
- *SDE's operation of a Civil Process Division (CPD) is a . . . function . . . dictated by state statute. This public service comes at a cost to all Sheriff departments. The current statutorily mandated fees that we collect, and fees we pay to the state, do not yield to a profitable enterprise. SDE anticipates CPD will continue to require operating appropriation supplements to support this core service to the public. As our [General Appropriation Act] budget is adjusted to meet our operational needs, SDE hopes that CPD expenses will be recognized as a necessary expense, as per statute. Furthermore, in the FY2004 State Budget, the Commonwealth authorized an increase in certain Civil Process fees that appeared in MGL Chapter 262. In return, the Commonwealth required each Sheriff's CPD to remit 50% of the increased portion to the State's General Fund. From FY2004 to FY2017, SDE's CPD has remitted \$2,561,564.61 to the Commonwealth's General Fund.*