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**INDEPENDENT STATE AUDITOR'S REPORT ON
CERTAIN ACTIVITIES OF THE
HAMPDEN SHERIFF'S OFFICE**

**OFFICIAL AUDIT
REPORT
DECEMBER 17, 2010**

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INTRODUCTION

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The Hampden Sheriff's Office (HSO) was established as an independent state agency as of July 1, 1998, as a result of the abolishment of Hampden County pursuant to Chapter 48 of the Acts of 1997. Chapter 127 of the Acts of 1999 amended the Massachusetts General Laws by adding Chapter 34B, which stipulated that the Sheriff became an employee of the Commonwealth but remained an elected official and the Sheriff retained administrative and operational control over the HSO, the Jail, and the House of Correction. The HSO had an inmate capacity of 1,386 inmates and an average inmate census of 1,997 inmates during our audit period.

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we audited certain activities at HSO for the period July 1, 2008 to January 31, 2009. Our audit was conducted in accordance with applicable generally accepted government auditing standards and, accordingly, included such audit tests and procedures as we considered necessary. The objective of our audit was to review and examine internal controls over financial and program activities at HSO, including the Jail and House of Correction, the Western Massachusetts Regional Women's Correctional Center, the Pre-Release Center, York Industries, the Western Massachusetts Correctional Alcohol Center, the Community Corrections Program, and the Civil Process Division.

AUDIT RESULTS

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1. PRIOR AUDIT RESULTS UNRESOLVED OR PARTIALLY RESOLVED

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During our follow-up audit, we determined that the HSO had not fully resolved the prior audit issues regarding (a) the collection and disposition of telephone commissions, (b) improvements to the Internal Control Plan, (c) Generally Accepted Accounting Principles (GAAP) reporting, (d) the civil processing function and the deposit of fees, (e) reporting of Chapter 647 thefts, and (f) improvements to non-GAAP fixed asset reporting.

a. Disposition of Telephone Commissions Needs Clarification

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Prior audit reports (Nos. 2001-1434-3S and 2004-1434-3S) disclosed that the HSO receives commissions on telephone services to inmates and these commissions are deposited into the Commissary Fund. When the HSO was transferred as a result of the change in legal status from county government to an independent agency of the Commonwealth, uncertainty existed regarding where these funds should be deposited, and which Massachusetts General Laws were applicable. Conflicting legislation, Chapter 29, Section 1, and Chapter 127, Section 3, of the General Laws, identify how state revenue is to be processed. Because telephone commissions may meet the revenue criteria of both laws, it is unclear whether they should be paid into the Commonwealth's General Fund or the HSO's Commissary Fund. Therefore, our prior audit reports recommended that the HSO seek legal clarification as to which law applies. Our follow-up audit disclosed that corrective action had not been taken regarding telephone commissions. The HSO is still depositing telephone commission funds into its

Commissary Fund, and there has been no clarification as to which General Law applies. The HSO maintains that there is a need for the Legislature to clarify this matter, and until such time as clarification is received, the HSO intends to continue with its current practice. Subsequent to the completion of our audit, Chapter 61 of the Acts of 2009 transferred the remaining County Sheriff's Offices to the Commonwealth and the law states that telephone commissions remain with the Office of the Sheriff. Chapter 61, Section 22 also establishes a special commission to investigate and study the Sheriff's Offices throughout the Commonwealth and make recommendations for reorganization and consolidation of their operations, administration, regulation, governance, and finances, including recommending legislation. The special commission should take into consideration the inconsistencies in the various laws regarding the deposit and use of the telephone commissions and propose legislation that would make these functions consistent statewide. In response to the audit report, the HSO indicated that it will continue to follow existing legislation until the special commission makes any recommendations. The HSO should continue, in concert with the other 13 Sheriff's Offices, to seek consistency in legislation relative to use of telephone commissions throughout the Commonwealth.

b. Internal Control Plan Needs Further Improvement

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Our prior audit disclosed that the HSO Internal Control Plan (ICP) did not contain a high-level summarization of risks on a department-wide basis to conform with Office of the State Comptroller (OSC) guidelines, but did have sufficient lower-level elements and detail available to complete such a summarization. Our follow-up audit disclosed that the HSO has made significant improvements in developing a detailed ICP. We found that HSO had made the most improvement in its ICP by developing an extensive risk assessment identifying and defining its major risks and creating policies and procedures for responding to these risks. However, we found that the HSO still needs to continue to update and improve its ICP to include all segments and divisions within its operation. Most notably missing from the ICP either by direct inclusion or by reference is the Civil Process Division (CPD), which is an integral division within the HSO operation. HSO officials stated they will update the ICP to include the CPD. In response to the audit report, the HSO indicated that it will review and make necessary adjustments to the ICP. The HSO has incorporated the ICP as part of the HSO policies and procedures, which receives an annual review and updating as necessary.

c. Improvements Needed in GAAP Reporting

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Our prior audit (No. 2004-1434-3S) disclosed that HSO's Generally Accepted Accounting Principles (GAAP) Report submitted to the OSC had not contained all required information regarding accounts receivable, assets held in trust, and materials and supplies totaling \$826,586. Section 2, Accounts Receivable, and Section 6, Assets Held in Trust, of the OSC's Closing Instructions require that these assets be reported respectively as Accounts Receivable and Assets Held in Trust. Our follow-up audit disclosed that the HSO has not remedied this issue. The fiscal year 2008 GAAP Report should have reported assets held in trust (six items) totaling \$996,639, but listed only five items totaling \$539,231, a difference of \$457,408. HSO officials stated that both the Civil Process Division (CPD) and the Western Massachusetts Correctional Alcohol Center have not been included because their records are maintained at different

locations. Additionally, the Pre-Release Center recently opened a new account and the Recreation Fund was overlooked in compiling the information for the GAAP report. In response to the audit report, the HSO indicated that it is now reporting assets held in trust with the exception of CPD funds, which continue to not be reported as required. Annual reporting and accounting of all GAAP information is important for full disclosure to the Commonwealth's financial statements.

d. Clarification Needed Regarding the Organization of the Civil Processing Function and the Deposit of Fees

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In accordance with Chapter 37, Section 11, of the General Laws, Deputy Sheriffs throughout the Commonwealth collect fees for the service of civil process. Our prior audits (Nos. 2001-1434-3S & 2004-1434-3S) noted that clarification was needed regarding whether civil processing fees should be deposited into the Commonwealth's General Fund or retained by the HSO. Our prior audits disclosed that civil processing fees were being collected and retained for HSO by its Civil Process Division (CPD) for the serving of legal papers and documents (e.g., summons, subpoenas, complaints, and writs). These civil processing fees retained by the CPD are "off line" and not accounted for, reported, and recorded on the Massachusetts Management Accounting and Reporting System (MMARS). Our follow-up audit disclosed that this condition still has not been rectified and fees are still maintained off line from MMARS. The HSO needs to review the status of all employees within the CPD and the existing legislation that governs the civil process function to ensure compliance with all applicable Commonwealth laws, rules, and regulations regarding state finance. Also, the HSO needs to review the accounting, reporting, processing, and management of civil processing fees and consult with the Office of the State Comptroller (OSC) to ensure that civil processing fees are recorded in MMARS via a retained revenue account or some other appropriate Commonwealth accounting mechanism that is in compliance with applicable laws, rules, and regulations. The status of CPD employees remains unresolved. Although we found that 17 current employees of the CPD, including deputies who serve process, are considered employees of the Commonwealth of Massachusetts, they are still paid from fee revenue collected from the service of civil process. HSO should further review the functions of its CPD and its accounting, reporting, processing, and management of civil processing fees. Also, Chapter 61, Section 22 establishes a special commission to investigate and study the Sheriff's Offices throughout the Commonwealth and make recommendations for reorganization and consolidation of its operations, administration, regulation, governance, and finances, including recommending legislation. The special commission should review the Sheriff's Offices' civil processing functions and the deposit and use of fees and propose legislation to make the operation of the civil processing function and deposit of fees consistent for all Sheriff's Offices. In response to the audit report, HSO stated that it will continue to address this issue in support of clarifying legislation.

e. Thefts Still Not Being Reported as Required by Chapter 647 of the Acts of 1989 **15**

Our prior audit disclosed that a theft totaling \$4,353 from the HSO's inmate funds account was not reported to the Office of the State Auditor (OSA) in accordance with Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies, which requires that all unaccounted-for variances, losses, shortages, or thefts of funds or property be immediately reported to the OSA. HSO officials stated that they did not feel reporting this theft to the OSA was necessary because they had informed the Hampden County District Attorney's Office and the Massachusetts State Police (MSP), and the bank had reimbursed the HSO for the amount of its loss. Our follow-up audit disclosed that HSO incorporated the Chapter 647 requirements into its policies and procedures. Notification of incidents is included in the policies and procedures; however, the HSO filed two Chapter 647 reports with the OSA in 2007 that were not timely. These delays precluded an adequate and timely OSA independent review regarding any breakdown in HSO's internal control structure and policies and procedures. In response to the audit report, the HSO plans to review its procedures to ensure timely Chapter 647 reporting in the future.

f. Non-GAAP Fixed Asset Accounting and Reporting Still Need Improvement **17**

Our prior audit (2004-1434-3S) disclosed that the HSO was not in full compliance with OSC regulations with regard to the accounting and reporting of non-GAAP fixed assets. Although the HSO maintained listings of its non-GAAP fixed assets, it had not updated its internal control policies and procedures for managing its non-GAAP fixed assets in conformance with updated OSC regulations. Our follow-up audit disclosed that the HSO still had not taken corrective action regarding non-GAAP fixed assets. The HSO maintained incomplete computerized summary listings of fixed-asset inventory with a value of \$1,000 or more. These listings did not consistently include all identifying information such as: condition, cost of original acquisition, model, or serial number. The listings of non-GAAP items and the internal control procedures that the HSO presently has in place do not effectively account for, control, and maintain these items for effective reporting purposes because these computerized listings were not complete. The HSO, in response to the audit report, stated that it has changed the way that it inventories non-GAAP inventory, including reviewing computer applications to make the appropriate changes in the way items are inventoried.

2. IMPROVEMENTS NEEDED IN INMATE ACCOUNT CONTROLS **19**

Our audit disclosed that the HSO needs to strengthen its internal controls over inmates' funds being held by the HSO in fiduciary custody. We identified variances between inmate cash account control records and corresponding individual inmate account records that need to be addressed by HSO. Further, the HSO is not a) reconciling the inmate accounts on a monthly basis, b) addressing outstanding checks, c) identifying and resolving issues with the reconciliation of items on bank accounts in a timely manner, and d) properly distributing funds of discharged inmates in conformance with applicable laws and HSO policies and procedures. In response to the audit report, the HSO stated that it will prepare bank reconciliations on all accounts each month, will void outstanding

checks, and has implemented new systems to give greater reporting and reconciliation capabilities for its inmate accounts.

3. IMPROVEMENTS NEEDED IN CASH MANAGEMENT CONTROLS **23**

Our audit disclosed that the HSO needs to strengthen its internal controls over its cash management practices. Specifically, we found that HSO is holding checks not presented for payment within one year from their date of issue, contrary to regulations. Further improvements are needed in the monitoring of its cash management and investment policies over locally held funds. A review of the eight checking accounts maintained by HSO disclosed 1,196 checks totaling \$43,181 ranging from \$.47 to \$753 which had been outstanding for more than a year, including checks dating back to May of 2002. In response to the audit report, the HSO indicated that it will review outstanding checks and credit the appropriate account and will work with the Office of the State Treasurer (OST) to revert the dormant accounts. Also, the HSO indicated that it is not required to comply with Chapter 29, Section 23, of the General Laws, management of state agency funds, but it follows prudent cash management and business practices. The HSO is a state agency and is required to follow existing cash management and business practices as stated in the General Laws and directives issued by the OST. The HSO should contact the OST for guidance.

4. INTERNAL CONTROLS WITHIN CIVIL PROCESS DIVISION NEED IMPROVEMENT **28**

Prior to August 27, 2007, Hampden County Sheriffs, Inc. (HCSI), a for-profit corporation that employed 27 full- and part-time employees, was responsible for serving civil process under the direction and authorization of the Sheriff. On August 27, 2007, the HCSI was legally abolished and transferred as a Civil Process Division (CPD) within the HSO. Our review disclosed that HSO's CPD has no formal written operating policies and procedures and is not identified in the HSO's ICP. In response, the HSO indicated that it is the process of having the HSO's standards and compliance team begin to develop proper protocols for CPD.

APPENDIX **31**

Chapter 647, Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies

INTRODUCTION

Background

The Hampden Sheriff's Office (HSO) was established as an independent state agency on July 1, 1998, as a result of the abolishment of Hampden County pursuant to Chapter 48 of the Acts of 1997. Chapter 127 of the Acts of 1999 amended the Massachusetts General Laws by adding Chapter 34B, which stipulated that the Sheriff became an employee of the Commonwealth, remained an elected official, and retained administrative and operational control over the HSO, the Jail, and the House of Correction. The HSO ensures protection of the community by providing a safe and secure environment as well as correctional and educational services at its facilities. The HSO received \$73,973,122 in funding for fiscal year 2009 for the operation of the Jail, House of Correction, the Western Massachusetts Regional Women's Correctional Center, the Pre-Release Center, York Industries, the Western Massachusetts Correctional Alcohol Center, the Community Corrections Program, the Civil Process Division, and any other statutorily authorized facilities and functions. The HSO has approximately 880 employees. Its main facility, the Hampden County Sheriff's Jail and House of Correction, has an inmate capacity of 1,386 and during our audit period had an average inmate census of 1,997 inmates. As presently structured, the HSO is responsible for running and overseeing all aspects of its programs and facilities, which consist of the HSO administrative offices, the Jail and House of Correction, the Western Massachusetts Regional Women's Correctional Center, the Pre-Release Center, York Industries, the Western Massachusetts Correctional Alcohol Center, and the Community Corrections Program. The HSO has an extensive multi-faceted entry and orientation program for all inmates that provide the inmate with an understanding of operations, expectations, and responsibilities while in custody of the HSO. The HSO provides a wide network of inmate support consisting of several hundred individual programs, including adult education programs, vocational programs, treatment programs, multi-health and substance abuse programs, volunteer programs, library services, and industries. These programs are designed to assist reducing risk for public safety by providing fundamental core and transitional programs designed to help inmates gain skills and abilities to avoid re-offense in the future.

In addition to its correctional programs, the HSO is responsible for the service of legal papers and notices through its Civil Process Division (CPD). Prior to August 27, 2007, Hampden County Sheriffs, Inc. (HCSI), a for-profit corporation that employed 27 full- and part-time employees, was

responsible for serving civil process under the direction and authorization of the Sheriff. On August 27, 2007, the HCSI was legally abolished and the CPD has transitioned the civil process responsibilities into a subdivision of the HSO. Subsequently, the CPD has applied to be a political subdivision of the HSO and is presently awaiting a final Internal Revenue Service decision on the abolishment of the for-profit corporation as required under the Internal Revenue Code, Section 115. CPD employees are paid from revenues collected in the service of civil process, and are not considered employees of the Commonwealth of Massachusetts. (See Audit Result 1d.) Annual audited financial statements for the fiscal year ended June 30, 2008 showed fees collected totaling \$1,493,048 and operating expenses of \$1,357,562, resulting in income from operations of \$135,486. In past years, the CPD retained all revenues collected; however, Chapter 26, Section 639, of the Acts of 2003 requires that starting in fiscal year 2004, the CPD must submit 50% of the increase in its fees to the Commonwealth. Effective February 1, 2004, Chapter 26, Section 649, of the Acts of 2003 requires that HSO submit a report with the House and Senate Committees on Ways and Means detailing the civil process fees charged by the CPD. Records of the CPD showed that \$302,329 was remitted to the General Fund, representing fee increases for the period January 1, 2008 to December 31, 2009.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws, we audited certain activities at HSO for the period July 1, 2008 to January 31, 2009. Our audit was conducted in accordance with applicable generally accepted governmental auditing standards and, accordingly, included such audit tests and procedures as we considered necessary. The objective of our audit was to review and examine internal controls over financial and program activities at HSO, including the Jail and House of Correction, the Western Massachusetts Regional Women's Correctional Center, the Pre-Release Center, York Industries, the Western Massachusetts Correctional Alcohol Center, the Community Corrections Program, and the Civil Process Division. Our main objectives were to determine whether: 1) financial records are accurate, up-to-date, and maintained in accordance with established criteria; 2) office costs and expenditures, including payroll and administrative costs, are appropriate and reasonable; 3) controls over revenue and fees are proper and adequate; 4) inventory control systems are adequate to safeguard supplies and equipment; and 5) the office's internal control structure is suitably designed and implemented to safeguard the Commonwealth's assets and is in compliance with the Office of the State Comptroller's Internal Control Guide and Chapter 647 of

the Acts of 1989. In addition, we followed up on our prior audits (Nos. 2002-1434-3S and 2004-1434-3S).

Our audit methodology included interviewing HSO personnel, observing transaction processing, examining and tracing documentation through HSO's systems, conducting physical inspections and reviews of HSO's fixed assets and inventory, assembling various agency documentation, and performing other audit procedures deemed necessary.

As a result of our audit, except as noted in the Audit Results section of this report, we have determined that, for the areas tested, HSO has maintained adequate internal controls over its financial and program operations in accordance with prescribed requirements and has complied with applicable laws, rules, and regulations.

Subsequent Events

Subsequent to the completion of our audit, Chapter 61 of the Acts of 2009, An Act Transferring County Sheriffs to the Commonwealth, was approved by the Legislature on August 6, 2009, effective January 1, 2010. This law transfers Barnstable, Bristol, Dukes, Nantucket, Norfolk, Plymouth, and Suffolk County Sheriffs to the Commonwealth. Section 22 of the Act establishes a special commission to investigate and study the Sheriff's Offices throughout the Commonwealth and make recommendations for reorganization and consolidation of their operations, administration, regulation, governance, and finances, including recommending legislation. Section 22 delineates the composition of the special commission and its mission as follows:

Notwithstanding any general or special law to the contrary, there shall be a special commission to consist of 9 members: 1 of whom shall be a member of the Massachusetts Sheriffs Association; 2 of whom shall be appointed by the speaker of the house of representatives; 1 of whom shall be appointed by the minority leader of the house of representatives; 2 of whom shall be appointed by the president of the senate; 1 of whom shall be appointed by the minority leader of the senate, and 2 of whom shall be appointed by the governor for the purpose of making an investigation and study relative to the reorganization or consolidation of sheriffs' offices, to make formal recommendations regarding such reorganization or consolidation and to recommend legislation, if any, to effectuate such recommendations relating to the reorganization, consolidation, operation, administration, regulation, governance and finances of sheriffs' offices...

The commission, as part of its review, analysis and study and in making such recommendations regarding the reorganization, consolidation, operation, administration, regulation, governance and finances of sheriffs' offices, shall focus on and consider the following issues, proposals and impacts:

- (1) the possible consolidation, elimination or realignment of certain sheriffs' offices and the potential costs savings and other efficiencies that may be achieved by eliminating, consolidating and realigning certain sheriffs offices to achieve pay parity;*
- (2) any constitutional, statutory or regulatory changes or amendments that may be required in order to effectuate any such consolidation or reorganization;*
- (3) the reallocation of duties and responsibilities of sheriffs' office as a consequence of any such consolidation or reorganization;*
- (4) the best management practices including, but not limited to, administrative procedures, payroll systems, software updates, sheriff's ability to negotiate cost effective contracts and the current use of civil process funds, including the amount of civil process funds collected by each county sheriff and the actual disposition of said funds currently, and, in the event of consolidation, realignment, elimination or reorganization, the collection and use of civil process fees in the future;*
- (5) the consideration of any other issues, studies, proposals or impacts that, in the judgment of the commission, may be relevant, pertinent or material to the study, analysis and review of the commission; and*
- (6) The need for appropriate placements and services for female detainees and prisoners, including pre-release services, job placement services, family connection services and re-entry opportunities; provided however, the review shall consider the need and present adequacy of placement of female prisoners and detainees in each country [sic]; and provided further, that all departments, divisions, commissions, public bodies, authorities, boards, bureaus or agencies of the commonwealth shall cooperate with the commission for the purpose of providing information or professional expertise and skill relevant to the responsibilities of the commission subject to considerations of privilege or the public records law.*

The commission shall submit a copy of its final report of its findings resulting from its study, review, analysis and consideration, including legislative recommendations, if any, to the governor, president of the senate, speaker of the house of representatives, the chairs of the house and senate committees on ways and means and the chairs of the joint committee on state administration and regulatory oversight and the clerks of the senate and house of representatives not later than December 31, 2010.

The Office of the State Auditor (OSA) has conducted numerous audits of Sheriff's Offices that have been transferred to the Commonwealth prior to the passage of Chapter 61. Our audits have disclosed instances of inconsistencies amongst the Sheriff's Offices regarding their financial operations and the application of various conflicting laws, rules, and regulations and have made recommendations to address these issues. Our recommendations in this audit, where appropriate, will be directed to the special commission for its consideration and use during its study and investigation for the reorganization and consolidation of Sheriff's Offices throughout the Commonwealth.

AUDIT RESULTS

1. PRIOR AUDIT RESULTS UNRESOLVED OR PARTIALLY RESOLVED

During our follow-up audit, we determined that the HSO had not fully resolved the prior audit issues regarding (a) the collection and disposition of telephone commissions, (b) improvements to the Internal Control Plan, (c) Generally Accepted Accounting Principles (GAAP) reporting, (d) the civil processing function and the deposit of fees, (e) reporting of Chapter 647 thefts, and (f) improvements to non-GAAP fixed asset reporting.

a. Disposition of Telephone Commissions Needs Clarification

Prior audit reports (2001-1434-3 and 2004-1434-3S) noted that the HSO receives commissions on telephone services to inmates and these commissions are deposited into the Commissary Fund. When the HSO was transferred to the Commonwealth, uncertainty existed regarding where these funds should be deposited, and which Massachusetts General Laws were applicable. Chapter 29, Section 2, of the General Laws states, in part:

All revenue payable to the commonwealth shall be paid into the general fund, except revenue required by law to be paid into a fund other than the general fund and revenue for or on account of sinking funds, trust funds, trust deposits and agency funds, which funds shall be maintained and the revenue applies in accordance with law or the purposes of the fund.

Chapter 29, Section 1, of the General Laws defines state revenue as follows:

All income from state taxes, state agency fees, fines, assessments, charges, and other departmental revenues, retained revenues, federal grants, federal reimbursements, lottery receipts, court judgments and the earning on such income.

However, Chapter 127, Section 3, of the General Laws states, in part:

Any monies derived from interest earned upon the deposit of money and revenue generated by the sale or purchase of goods and services to persons in the correctional facilities may be expended for the general welfare of all the inmates at the discretion of the superintendent.

Because telephone commissions may meet the revenue criteria of both laws, it is unclear whether they should be paid into the Commonwealth's General Fund or the HSO's Commissary Fund. Therefore, our prior audit reports recommended that the HSO seek legal clarification as to which law applies.

Our follow-up audit disclosed that corrective action had not been taken regarding telephone commissions. The HSO is still depositing telephone commission funds into its Commissary Fund, and there has been no clarification as to which General Law applies.

The HSO maintains that there is a need for the Legislature to clarify this matter, and until such time as clarification is received, the HSO intends to continue with its current practice. During fiscal year 2008, the HSO deposited \$757,645 into the Commissary Fund. For the period July 1, 2008 through January 31, 2009, the HSO deposited \$423,654.

Subsequent to our audit, Chapter 61 of the Acts of 2009 was approved by the Legislature on August 6, 2009, which transferred certain County Sheriff's Offices' operations (Barnstable, Bristol, Dukes, Nantucket, Norfolk, Plymouth, and Suffolk) to the Commonwealth. The law states that inmate telephone funds shall remain with the Office of the Sheriff. Chapter 61 of the Acts of 2009, Sections 12(a)-(c), states, in part, as follows:

- a. Notwithstanding any general or special law to the contrary and except for all counties the governments of which have been abolished by chapter 34B of the General Laws or other law, revenues of the office of sheriff in Barnstable, Bristol, Dukes, Nantucket, Norfolk, Plymouth and Suffolk counties for civil process, inmate telephone and commissary funds shall remain with the office of sheriff.*
- b. Notwithstanding any general or special law to the contrary, in order to encourage innovation and enterprise, each sheriff's office shall annually confer with the house and senate committees on ways and means regarding that sheriff's efforts to maximize and maintain grants, dedicated revenue accounts, revolving accounts, fee for service accounts and fees and payments from the federal, state, and local governments and other such accounts and regarding which revenue shall remain with the sheriff's office.*
- c. Any sheriff who has developed a revenue source derived apart from the state treasury may retain that funding to address the needs of the citizens within that county.*

This law further complicates the matter due to the existence of a previously enacted law that may be inconsistent with the law cited above with respect to the deposit of telephone commissions.

Recommendation

Chapter 61, Section 22 establishes a special commission (See Introduction Section – Subsequent Events) to investigate and study the Sheriff's Offices throughout the Commonwealth and make recommendations for the reorganization and consolidation of their operation, administration,

regulation, governance, and finances, including recommending legislation. The special commission should take into consideration the inconsistencies in the various laws regarding the deposition and use of telephone commissions and recommend legislation for the consistent handling and use of telephone commissions.

Auditee's Response

The Sheriff's Department has been consistent on how it handles revenue generated by the inmate population. The department follows Chapter 127, Section 3 of the Massachusetts General Laws. This policy is followed for telephone commissions as well as the sale of commissary products to the inmate population.

Auditor's Reply

The HSO should continue, in concert with the other 13 Sheriff's Offices, to seek consistency in legislation relative to use of telephone commissions throughout the Commonwealth.

b. Internal Control Plan Needs Further Improvement

Our prior audit disclosed that the HSO had developed a departmental policies and procedures manual for controlling its day-to-day activities and identifying and controlling its overall operational responsibilities. Key components of internal control systems are contained within the manual, including written administrative, accounting, and other significant operating policies and procedures for the HSO's complex multi-sited operations. However, our prior audit disclosed that the documented Internal Control Plan (ICP) as defined and prepared by the HSO did not contain a high-level summarization of risks on a department-wide basis to conform with Office of the State Comptroller (OSC) guidelines, but did have sufficient lower-level elements and detail available to complete such a summarization.

Our follow-up audit disclosed that the HSO has made significant improvements in developing a detailed ICP by including: a statement by the Sheriff on the importance of the ICP and its purpose, a general mission statement, statements on integrity, ethics, philosophy, staff conduct and expectations, goals and objectives, and statements addressing the five critical elements to sound internal controls (control environment, risk assessment, control activities, information and communications, and monitoring).

The HSO developed an extensive risk assessment by identifying and defining its major risks and creating policies and procedures for responding to these risks. The HSO identified eight major areas of risks that need to be controlled and mitigated with plans for response which include: Employee and Inmate Safety and Security, Inmate Treatment, Food Service, Pharmaceuticals, Education, Work Release, Funding, and Inappropriate Use of State Funding. We noted that each risk was defined with detailed controls identified and references made to the proper policies and procedures necessary to mitigate these risks.

However, we found that the HSO still needs to continue to update and improve its ICP to include all segments and divisions within its operation. Most notably missing from the ICP either by direct inclusion or by reference is the Civil Process Division (CPD), which is an integral division within the HSO operation. The inclusion of the CPD within the ICP needs to be addressed in light of issues identified within the audit (see Audit Result No. 4).

In order for the ICP to continue to be effective, it should be reviewed at least annually or as conditions warrant and address HSO activities throughout the entire organization, including all divisions, segments, programs, and other significant areas of operation by including or referencing respective policies and procedures and internal controls. This ICP provides the HSO with an effective tool in administering and monitoring its entire operation and serves as crucial documentation in times of crises and/or significant employee turnover.

Recommendation

The HSO should continue to improve internal controls and update its ICP to include or reference all segments and divisions within its operation. In addition, internal controls need to be further reviewed at the Civil Process Division's level and appropriate adjustments should be made to the ICP by inclusion or referencing. The plan should be reviewed annually or more often as conditions warrant.

Auditee's Response

The HSO is always searching to define all aspects of operations and in turn refine its Policies & Protocols to improve and advance its staff and their understanding of operations and their responsibilities thereof. In reading section b. of the Audit Report it appears that the main deficiency is that the Civil Process Division is not covered within the ICP. This we will review and make necessary adjustments to the ICP. We have incorporated the ICP as part of the HSO P&P, which receives an annual review and updating as necessary.

c. Improvements Needed in GAAP Reporting

Our prior audit (No. 2004-1434-3S) noted that HSO's Generally Accepted Accounting Principles (GAAP) Report submitted to the OSC had not contained all required information regarding accounts receivable, assets held in trust, and materials and supplies totaling \$826,586. Section 2, Accounts Receivable, and Section 6, Assets Held in Trust, of the OSC's Closing Instructions require that these assets be reported respectively as Accounts Receivable and Assets Held in Trust. In response to our prior audit, HSO officials stated that these balances were included in the subsequent GAAP report.

Our follow-up audit disclosed that HSO has not remedied this issue. The fiscal year 2008 GAAP Report should have reported Assets Held in Trust (six items) totaling \$996,639 but listed only five items totaling \$539,231, a difference of \$457,408 as shown below:

<u>Reporting Entity</u>	<u>Reportable Amount</u>	<u>Amount Reported</u>	<u>Difference</u>
Civil Process Division	\$320,937	-	\$320,937
Inmate Cash Fund	313,696	\$183,419	130,277
Inmate Commissary Fund	271,712	271,759	(47)
Criminal Justice Organization	51,659	51,346	313
Pre-Release Center	30,718	25,698	5,020
Master Account	7,009	7,009	-
Recreation Fund	<u>908</u>	<u>-</u>	<u>908</u>
Total	<u>\$996,639</u>	<u>\$539,231</u>	<u>\$457,408</u>

The OSC's fiscal year 2008 GAAP Instructions for Assets Held in Trust, states, in part:

"Assets held in trust" are the cash and other assets which the Commonwealth holds in a trustee capacity for third parties. Examples include patient or inmate canteen and gift funds, property and bank accounts. Special GAAP reporting is needed only

for those assets that are held at the department or facility, or at a local bank, and not accounted for through MMARS.

In accordance with GAAP, the Commonwealth reports both the assets and the corresponding third-party liabilities. It also reports additions to, and deletions from, assets held during the fiscal year, in order to adequately disclose changes in its custodial responsibilities.

*Departments with assets held in trust balances of **less than \$500,000** do not need to provide any GAAP detail. Please write "N/A" on the Transmittal Form **and** the Assets Held in Trust Form.*

It is important that all financial information be reported on the GAAP transmittal report to ensure that the Commonwealth's Comprehensive Annual Financial Report (CAFR) is complete, accurate, and continues to accomplish the high standards that were attained in past reports. The fiscal year 2008 GAAP Instructions, state in part:

We have submitted the FY2007 CAFR for review as part of the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting Program. The past seventeen CAFRs have received this award. Such accomplishments are important indicators to the financial community that the Commonwealth continues to meet the highest standards for financial accounting and reporting.

HSO officials stated that both the Civil Process Division and the Western Massachusetts Correctional Alcohol Center have not been included, as their records are maintained at different locations, while the Western Massachusetts Regional Women's Correctional Center was recently opened. Additionally, the Pre-Release Center recently opened a new account and the Recreation Fund was overlooked in compiling the information for the GAAP report. HSO further stated that it will address the inclusion of these accounts in the next GAAP submission.

Recommendation

HSO should develop and implement policies and procedures to ensure that all future GAAP reports contain the necessary information as required by the OSC's GAAP Instructions. In addition, HSO should utilize all of the assistance that is available in complying with OSC's requirements through the use of OSC's web page, training, and helpline.

Auditee's Response

HSO has included all the jail accounts in the 2009 and 2010 GAAP reports. We have not included the Civil Process Division in our GAAP report, the division has always been separate and distinct from the Hampden County Jail and House of Corrections and as a

business office we do not have any fiscal or operational oversight of that agency. An independent auditor audits the division annually.

Auditor's Reply

The reporting of all HSO funds within the Commonwealth's financial statements (especially for those assets that are held at the department or facility, or at a local bank, and not accounted for through MMARS and in the custody of the Office of the State Treasurer) requires special GAAP reporting by the Office of the State Comptroller in order to provide clarity and transparency to the extent of funds under the direct control of the HSO and the Commonwealth. An annual accounting of these funds by the HSO and all other Sheriff's Offices is necessary to provide readers of the Commonwealth's financial statements an understanding regarding the extent of the amount of funds being maintained in trusts by the Commonwealth.

d. Clarification Needed Regarding the Organization of the Civil Processing Function and the Deposit of Fees

Deputy Sheriffs throughout the Commonwealth collect fees for their service of civil process conducted in accordance with Chapter 37, Section 11, of the Massachusetts General Laws, which states:

Sheriffs and their deputies shall serve and execute, within their counties, all precepts lawfully issued to them and all other process required by law to be serviced by an officer. They may serve process in cases where in a county, city, town, parish, religious society or fire or other district is a party or interested, although they are inhabitants or members thereof.

The serving of civil process in accordance with Chapter 262 of the General Laws includes such things as serving summons, warrants, subpoenas, and other procedures requiring legal notification.

Chapter 26, Section 639, of the Acts of 2003 requires that starting in fiscal year 2004, the HSO submit 50% of the increase in its fees to the Commonwealth. The CPD remitted \$302,329 to the Commonwealth's General Fund for the period January 1, 2008 to December 31, 2008. Also, for this period the CPD collected \$1,167,185 in total revenue from fee processing service activity.

On July 1, 1998, the Sheriffs' functions, duties, and responsibilities were transferred to the Commonwealth. Since the civil processing function is within the Hampden Sheriff's legislatively

defined duties and responsibilities, fees collected and retained by the Deputy Sheriffs since the transfer should be considered Commonwealth revenue. Chapter 29, Section 1, of the General Laws defines “fees” as state revenue, as follows:

“State revenue”, all income from state taxes, state agency fees, fines, assessments, charges, and other departmental revenues, retained revenues, federal grants, federal reimbursements, lottery receipts, court judgments and the earnings on such income.

Chapter 29, Section 2, of the General Laws requires that all Commonwealth revenue be paid into a Commonwealth fund, as follows:

All revenue payable to the commonwealth shall be paid into the General Fund, except revenue required by law to be paid into a fund other than the General Fund and revenue for or on account of sinking funds, trust funds, trust deposits and agency funds, which funds shall be maintained and the revenue applied in accordance with law or the purposes of the fund.

All such revenue shall be deposited in and credited to the General Fund or other state funds during the fiscal year in which it is received. In the event that a question arises as to the correct year to credit the receipt of revenues, the comptroller shall make a determination as to the correct fiscal year and the determination of the comptroller shall be conclusive.

Our prior audit disclosed that civil processing fees retained by the CPD were “off line” and not deposited in the general fund or some other fund, such as a retained revenue account, nor were they accounted for, reported, and recorded on the Massachusetts Management Accounting and Reporting System (MMARS), the state’s accounting management system that is designed to support the financial functions of the Commonwealth, which include all revenue and expenditure activity. As a state agency, HSO’s financial activities should be managed through MMARS.

We recommended that the HSO review the accounting, reporting, processing, and management of civil processing fees and consult with the Office of the State Comptroller (OSC) and file legislation to ensure that civil processing fees are recorded in MMARS via a retained revenue account or some other appropriate Commonwealth accounting mechanism that complies with applicable laws, rules, and regulations.

In our follow up audit, we found that, although legislation has been filed to effect change to the methods and management of civil process fees, no legislation has been passed in regards to the accounting, reporting, processing, and management of civil processing fees.

Also, our prior audit (No. 2004-1434-3S) identified employees from the CPD that were not considered state employees, and were paid from civil processing fees. These employees appointed by the Sheriff were employees of the Hampden County Sheriffs, Inc. (HCSI), rather than the Commonwealth. (HCSI was abolished as a corporation on August 27, 2007). Our audit disclosed that Chapter 34B, Section 13, of the General Laws directed the following:

An employee of a sheriff of an abolished county... shall be an "employee" or "public employee" as defined in Section 1 of chapter 150E, and the sheriff of such county shall be an "employer" or "public employer" as defined in said section 1 of said chapter 150E...

Chapter 150E, Section 1 defines employees as follows:

"Employee" or "public employee", any person in the executive or judicial branch of a government unit employed by a public employer...

Therefore, the HSO needed to determine the status of these employees as to whether they should be state employees, contract employees, or some other status that complies with all applicable Commonwealth laws, rules, and regulations.

Our follow-up audit disclosed that this issue on the status of CPD employees remains unresolved. Although we found that 17 current employees of the CPD, including deputies who serve process, are considered employees of the Commonwealth of Massachusetts, they are still paid from fee revenue collected from the service of civil process. Their payroll payments, still prepared and processed by the CPD, are subject to withholding from income taxes, social security withholdings, and annual W-2's for these employees. They are not members of the state or county retirement systems. This contrasts with other HSO employees and CPDs affiliated with the other Sheriff's Offices, whose employees are considered state employees; whose payroll information is processed through the Commonwealth's Human Resource/Compensation Management System (HR/CMS); and whose retirement, withholdings, and W-2's are handled by the State Treasurer and State Comptroller, respectively.

Not all Sheriff's Offices are handling civil processing fees in the same manner. The Essex and Middlesex County Sheriff's Offices have set up nonprofit entities to run their Civil Process Divisions. The Berkshire, Franklin, Hampshire, and Worcester County Sheriff's Offices do not have separate nonprofit or for-profit corporations to process and handle civil processing fees, similar to HSO. These latter departments have Civil Process Divisions within their state

organizational structure. The Office of the State Auditor (OSA) has reported on numerous occasions the major differences between these entities, and the need for state officials, including the OSC and the Secretary of the Executive Office for Administration and Finance, to review the civil process operations for Sheriff's Offices that have been transferred to the Commonwealth. Also, in response to our prior audit, the HSO officials, recognizing an overall systemic fragmentation statewide in Sheriff's Offices' Civil Process Divisions, stated that it would seek to address the civil process structural issues, as follows:

The Hampden County Sheriff's Department has initiated a comprehensive review of the administrative structure for service of civil process, with the goal of achieving a total reorganization of the administration of service of process in Hampden County. This review and contemplated reorganization is expected to include a request for legislation establishing a retained earnings revenue account.

House Bill No. 3769, An Act Relative to Civil Process Reform, has been filed to revamp the entire state civil process system (currently with the Joint Committee on the Judiciary). Also, subsequent to our audit, Chapter 61 of the Acts of 2009 was approved by the Legislature on August 6, 2009 to transfer certain County Sheriff's Offices' operations (Barnstable, Bristol, Dukes, Nantucket, Norfolk, Plymouth, and Suffolk) to the Commonwealth. This law states that civil process revenues remain with the Office of the Sheriff. Chapter 61, Sections 12(a)-(c) states, in part, the following:

(a) Notwithstanding any general or special law to the contrary and except for all counties the governments of which have been abolished by chapter 34B of the General Laws or other law, revenues of the office of sheriff in Barnstable, Bristol, Dukes, Nantucket, Norfolk, Plymouth and Suffolk counties for civil process, inmate telephone and commissary funds shall remain with the office of sheriff.

(b) Notwithstanding any general or special law to the contrary, in order to encourage innovation and enterprise, each sheriff's office shall annually confer with the house and senate committees on ways and means regarding that sheriff's efforts to maximize and maintain grants, dedicated revenue accounts, revolving accounts, fee for service accounts and fees and payments from the federal, state, and local governments and other such accounts and regarding which revenue shall remain with the sheriff's office.

(c) Any sheriff who has developed a revenue source derived apart from the state treasury may retain that funding to address the needs of the citizens within that county.

The proposed civil process reform legislation and transition of all other Sheriff's Offices into state government present the Commonwealth with the opportunity to clarify inconsistencies in various laws, ensuring that the CPDs have uniform structures within each Sheriff's Office.

Recommendation

HSO should review the status of all employees within its CPD as state employees with respect to the existing legislation that governs the civil process function to ensure compliance with all applicable Commonwealth laws, rules, and regulations regarding state finance. HSO should review the accounting, reporting, processing, and management of civil processing fees and consult with the OSC, and file legislation to ensure that civil processing fees are recorded in MMARS via a retained revenue account or some other appropriate Commonwealth accounting mechanism that is in compliance with applicable laws, rules, and regulations.

Chapter 61, Section 22, of the Acts of 2009 establishes a special commission, as follows:

for the purpose of making an investigation and study relative to the reorganization or consolidation of sheriffs' offices, to make formal recommendations regarding such reorganization or consolidation and to recommend legislation, if any, to effectuate such recommendations relating to the reorganization, consolidation, operation, administration, regulation, governance and finances of sheriffs' offices.

The special commission should review the civil process functions and the deposit and use of fees and propose legislation to make them consistent for all Sheriff's Offices.

Auditee's Response

Sheriff Ashe and the Massachusetts Sheriff's Association continue to file legislation that would create a universal way for all fourteen (14) sheriffs to operate civil process. Until this legislation is engrossed we will continue the same level of high standards that we have maintained throughout the years. We ensure that each year we perform an independent audit and that the office of civil process pervades the highest level of professionalism and service to the citizens of Hampden County.

e. Thefts Still Not Being Reported as Required by Chapter 647 of the Acts of 1989

Our prior audit disclosed that a theft totaling \$4,353 from the HSO's inmate funds account was not reported to the Office of the State Auditor (OSA) in accordance with Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies, which requires that all unaccounted-for variances, losses, shortages, or thefts of funds or property be immediately reported to the OSA. HSO officials stated that they did not feel there was a need to report this theft to the OSA because they had informed the Hampden County District Attorney, the Massachusetts State Police (MSP), and the bank had reimbursed the HSO for the amount of its loss. Subsequent to our prior audit, a suspect was prosecuted and convicted. However, the HSO's actions did not preclude it from adhering to Chapter 647 of the Acts of 1989 and immediately

reporting all unaccounted-for variances, losses, shortages, or thefts of funds or property to the OSA.

Our follow-up audit noted that HSO incorporated Chapter 647 requirements into its policies and procedures. Notification of incidents is included in the policies and procedures relating to Purchasing/Inventory, which states, in part:

The designated department head is responsible for the submission of an incident report to the AS [Assistant Superintendent] of Finance, in the event an inventoried item cannot be accounted for. It is the determination of the AS of Finance if further investigation is required, and if necessary the notification of the appropriate law enforcement agency and the state auditor.

Although we concur with the HSO in improving its Chapter 647 reporting mechanisms, it must be noted that Chapter 647 requires that all unaccounted-for variances, losses, or thefts of funds or property be immediately reported to the OSA, and that the OSA determine the internal control weaknesses that contributed to or caused the condition and make recommendations to the agency official overseeing the internal control system. Chapter 647 of the Acts of 1989 states, in part:

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. Said auditor shall then make recommendations to the agency official overseeing the internal control system and other appropriate management officials. The recommendations of said auditor shall address the correction of the conditions found and the necessary internal control policies and procedures that must be modified. The agency oversight official and the appropriate management officials shall immediately implement policies and procedures necessary to prevent a recurrence of the problems identified.

In this regard, we noted that the HSO filed two Chapter 647 Reports with the OSA in 2007 that were not timely. The first report involved a missing light box that x-rays inmate mail. This item was delivered and signed for at the new Western Massachusetts Regional Women's Correctional Center but could not be located. An HSO official believes the item may have been discarded with empty boxes. This loss was detected on November 7, 2007 and was reported to the OSA on February 25, 2008, after all efforts to locate the item were exhausted. The second report filed earlier on February 27, 2007 with the OSA involved two insufficient funds checks totaling \$1,287 from an employer that were received for a Pre-Release inmate. As a result, the bank debited the HSO for the loss of funds. The HSO had carried this loss for approximately five months without being able to remedy the situation before reporting it to the OSA. Our audit noted that a demand letter was sent to the employer on March 23, 2007 and as a result the employer sent three money

orders on April 23, 2007 to cover the amount owed. The timely notification and resolution of thefts of funds with the OSA was not consistent with the procedures set forth under Chapter 647. These delays precluded an adequate and timely independent review and discussion immediately taking place between the HSO and OSA to enable a consensus to action required in addressing any breakdown in the HSO internal control structure and policies and procedures.

Recommendation

The HSO must improve its incident reporting procedures to ensure proper and timely reporting is made to the OSA in compliance with Chapter 647 requirements in order for the OSA to determine the internal control weaknesses that contributed to or caused the condition and make recommendations to the management overseeing the internal control system and report the incident to the proper law enforcement officials.

Auditee's Response

The HSO in both cases had delayed filing of the 647 report due to the internal and external investigation process. Our delay was not intended to violate the policy at hand but to investigate the incident to its fullest before filing the 647 report. In certain instances gathering all the facts can be very difficult due to the fact that an inmate involved could have already been released from custody. Since we were informed of the 647 report filing requirements a number of years ago we have tried to report as timely as possible.

Auditors Reply

Chapter 647 requires that all unaccounted for variance, losses, shortages or thefts of funds or property be reported immediately to the OSA so that the OSA can review the matter and make a determination if an independent audit is required.

f. Non-GAAP Fixed Asset Accounting and Reporting Still Need Improvement

Our prior audit (2004-1434-3S) disclosed that the HSO was not in full compliance with OSC regulations with regard to the accounting and reporting of non-GAAP (Generally Accepted Accounting Principles) fixed assets, equipment, and other inventory. Although the HSO maintained listings of its non-GAAP fixed assets, it had not updated its internal control policies and procedures for managing its non-GAAP fixed assets in conformance with updated OSC regulations. Non-GAAP fixed assets are items that include vehicles, equipment, furniture, computer software, and all electrical and computer components with a useful life in excess of one year and with an original cost of between \$1,000 and \$49,999. In addition, all buildings, roads, and

other infrastructure with an original cost less than \$99,999 are non-GAAP fixed assets. Departments are required under OSC regulations and Chapter 7A, Section 8, of the General Laws to maintain adequate accounting and reporting of internal controls that include controls over non-GAAP fixed assets.

The OSC's Fixed Assets – Acquisition Policy, dated November 1, 2006, states, in part:

Non-GAAP Fixed Assets must be recorded in a Department's inventory and reconciled at least annually. This inventory can be either electronic or on paper, as long as it records the date of purchase, amount, description, location and disposition of an item. Non-GAAP Fixed Assets Inventory are subject to review in the audit process by the State Auditor's Office or the Commonwealth's independent auditors.

Our follow-up audit disclosed that the HSO still had not taken corrective action regarding non-GAAP fixed assets. The HSO maintained incomplete computerized summary listings of fixed-asset inventory with a value of \$1,000 or more. These listings did not consistently include all identifying information such as: condition, cost of original acquisition, model, or serial number. Further, these listings do not provide an adequate basis for valuation of the total inventory for decisions on replacement, or for disposal of these equipment and furniture items as they become obsolete and unusable. Because data was not entered or was not complete in all fields, many items on the listings cannot be readily traced to or referenced to the detail records of purchased invoices or source-funding accounts to verify when, from whom, and at what cost the items were purchased.

As a result, the HSO is not accurately controlling and safeguarding its assets in compliance with OSC regulations, and if improvements are not addressed, the HSO is possibly exposing its fixed assets to loss or misuse.

Recommendation

The HSO needs to improve its fixed-asset accounting and reporting of non-GAAP inventory items. To properly control and maintain its fixed asset inventory, the HSO needs to review and update its existing internal controls, including electronic and computer technology, and should use the policies and procedures outlined in the OSC's Internal Control Guide as well as policy memos to upgrade its local internal inventory policy and procedures. All listings of inventory items should consistently include all identifying information such as: condition, cost of original acquisition, model, or serial number. In addition, all data that is entered on the listings should be complete in

all fields so that it can be readily traced to or referenced to the detail records of purchased invoices or source-funding accounts to verify when, from whom, and at what cost the items were purchased. Additionally, the HSO should consider utilizing more of its resources and computer technology to improve upon its accounting and reporting of non-GAAP assets that would allow the HSO to modernize and update its controls to address the most current OSC guidelines. The inventory listings should be modified to segregate items by MMARS codes and establish group classifications in order to identify HSO's entire inventory. HSO's inventory policy and procedures should be updated accordingly.

Auditee's Response

The HSO changed the way that it inventoried its non-GAAP inventory two audits ago when the Auditor recommended that we change our policy from anything greater than \$125 to anything greater than \$1,000 at which time we changed our policy. The next audit noted that we did not have a cost associated to the fixed asset and since that time we have entered an amount to any new items purchased. Unfortunately we are unable to retrieve some of the old inventoried items and affix a price to that item, which would be costly and time consuming and in some cases not even possible. The area of computer hardware will be reviewed by the department and we will make the appropriate changes in the way that we inventory these items.

2. IMPROVEMENTS NEEDED IN INMATE ACCOUNT CONTROLS

Our audit disclosed that the HSO needs to strengthen its internal controls over inmates' funds. We found processing and reconciliation deficiencies in the maintenance of the inmate cash accounts and within the detailed inmate account ledger balances. Further, our review disclosed that HSO is not addressing long outstanding checks; timely identifying, reconciling, and resolving items on bank accounts; and ensuring the proper distribution of funds of discharged inmates in conformance with both applicable law and HSO policies and procedures.

During our audit, HSO officials stated that they reconcile the inmate accounts once a year on June 30. Monthly trial balances comparing individual inmate's accounts to general ledger and other accounting controls are not prepared. As of June 30, 2008, the HSO inmate cash control account balance was \$319,804, while corresponding individual inmate account balances were \$311,095, a variance of \$8,709. An HSO official stated he could not identify when these accounts were last in agreement since it was difficult to close the fund at any point of time. This official further stated that HSO is constantly making inmate admissions (deposits) and inmate releases (withdrawals), as well as deposits for routine commissary purchases.

Our review of inmate accounts on both June 30, 2008, and January 31, 2009 noted there were 12,537 and 12,133 individual inmate accounts, respectively, of which 5,394 accounts (43%) and 6,026 accounts (50%) were being maintained for inmates discharged over two years. Additionally, on June 30, 2008 and January 31, 2009, there were 149 and 180 outstanding checks, respectively, not presented for payment within one year from their date of issue (See Audit Result No. 3). Also, the Western Massachusetts Correctional Alcohol Center checking account, as of January 31, 2009, had 27 individual reconciling items pertaining to escaped or discharged inmates totaling \$123 dating from October 11, 1997 to May 17, 2007. These 27 reconciling items range from \$.01 cent to \$40.

The large number of former inmate accounts being carried on HSO books, checks not presented for payment within one year from their date of issue, as well as a lack of reconciliation are contributing factors to the HSO's issues.

An analysis of the inmate accounts as of June 30, 2008 and January 31, 2009 is shown below:

Description	<u>June 30, 2008</u>				<u>January 31, 2009</u>			
	<u>Number of Accounts</u>	<u>Percent</u>	<u>Dollar Value</u>	<u>Percent</u>	<u>Number of Accounts</u>	<u>Percent</u>	<u>Dollar Value</u>	<u>Percent</u>
Incarcerated	3,953	32	\$219,748	71	2,286	19	\$178,309	64
Discharges within Two Years	3,190	25	34,932	11	3,821	31	34,209	12
Discharges over Two Years	<u>5,394</u>	<u>43</u>	<u>56,414</u>	<u>18</u>	<u>6,026</u>	<u>50</u>	<u>67,400</u>	<u>24</u>
Total	<u>12,537</u>	<u>100</u>	<u>\$311,094</u>	<u>100</u>	<u>12,133</u>	<u>100</u>	<u>\$279,918</u>	<u>100</u>

HSO's Core Policy and Protocol Chapter 1, Administration & Management, Section 2, Fiscal Management, Number 5 - Inmate Funds indicates that this policy has been reviewed annually from July 1998 through April 2008. This policy continues to reference Massachusetts General Laws, Chapter 35, Section 23A regarding the unclaimed funds belonging to released inmates over two years. This statute requires payment to the county treasury for the use of the county. The HSO was established as an independent state agency as of July 1, 1998, as a result of the abolishment of Hampden County pursuant to Chapter 48 of the Acts of 1997. Massachusetts

General Laws, Chapter 127, Section 96A, Disposition of Unclaimed Money of Former Prisoners, became the governing statute upon the abolishment of Hampden County.

Massachusetts General Law, Chapter 127, Section 96A, states, in part:

So much of any funds as represent monies belonging to, or deposited for the benefit of, inmates who have died or have been discharged or have escaped from any correctional institution of the commonwealth, which shall have remained unclaimed for more than two years, shall be paid by the superintendent of such institution to the state treasurer to be held subject to be paid to the person establishing a lawful right thereto.

Further, HSO's Core Policy and Protocol Chapter 1, Administration & Management, Section 2, Fiscal Management, Number 5 - Inmate Funds, states, in part:

Policy Statement: HSO has inmate funds that are maintained in a general "Inmate Cash Fund" to insure proper handling and accounting of procedures of deposits and pre-approved expenditures. The HSO is responsible for sound fiscal Management including internal controls and signature control of checks.

Protocol 1: Inmate Funds (F.) Inmate Cash Funds interest accrued is deposited into the Inmate Commissary Fund to benefit the inmates.

Protocol 10: Unclaimed Funds After two years, unclaimed money belonging to released inmates is paid over to the State Treasurer according to Massachusetts General Law Chapter 35 Section 23A.

The HSO, in its fiduciary capacity as custodian of an inmate's funds, maintains a separate individual account for each inmate. Because of the large volume of inmates, HSO consolidates these single inmate accounts with other individual inmate accounts. These funds are deposited, commingled, and held in one main checking account maintained by the HSO (Inmates Cash Fund). By establishing this method of accounting for inmates' funds through consolidation and commingling, the HSO is required to exercise strong oversight and monitoring practices with heightened awareness and due diligence. By not having a system of timely reconciliations of inmate funds on an ongoing basis and not applying its own policy to address and process unclaimed funds, the HSO is potentially exposing these inmates' funds to fraudulent, wasteful, and abusive activity. Additionally, by not processing the accounts of discharged or transferred inmates, HSO is not monitoring inmates' fund accounts properly, not adhering to its fiscal responsibility, and is not in compliance with laws over unclaimed and abandoned property. Further, the retaining of outstanding, unclaimed, or returned checks without timely disposition is not an efficient and economical use of fiscal resources.

An HSO official stated that is has not been able to comply with Massachusetts General Law, Chapter 127, Section 96A, for quite a few years as HSO is not able to electronically provide all the required information to the OST.

Recommendation

The HSO must take the necessary steps to:

- Develop and implement policies and procedures to enable compliance with both Chapter 127, Section 96A, of the Massachusetts General Laws and its own Core Policy and Protocol, Chapter 1, Administration & Management, Section 2, Fiscal Management, Number 5 - Inmate Funds. Once developed and implemented, the policies and procedures should be periodically reviewed and updated if necessary to ensure continued compliance.
- Determine the current status of 6,026 account balances of the inmates discharged over two years as of January 31, 2009. Upon determination that these accounts are still inactive and on-hand, HSO should remit these funds and any other inmate account funds of discharged inmates exceeding two years to the OST in compliance with Massachusetts General Law, Chapter 127, and Section 96A.
- Resolve the 27 reconciling items within the Western Massachusetts Correctional Alcohol Center and reconcile the accounts on a periodic basis.

Auditee's Response

The HSO prepares bank reconciliations on all accounts each month. Identifying, reconciling, and resolving items on the bank accounts are done timely. The Business Manager, who is a Certified Public Accountant, reviews the reconciliations monthly and HSO has received a clean audit by an Independent Audit Firm every year. HSO will void the outstanding checks and deposit them back into the inmate's account. HSO will also contact the Office of the State Treasurer to work on a resolution for reverting the dormant accounts.

The Inmate Accounts Funds are maintained by high level accounting staff and are fully insured by the bank and are not exposed to fraudulent, wasteful, or abusive activity.

In June 2010, the HSO implemented additional services under the contract for commissary services to include SecureDeposits. This is an electronic system for accepting funds via kiosk, internet, and phone. The funds are routed through the commissary vendor and deposited into the inmate accounts bank account through electronic funds transfer. This system, along with the new software for the jail management system, will give us greater reporting and reconciliation capabilities.

In September 2010, a Pay card system for inmate releases will be implemented. A debit card will be issued to released inmates with the balance of their funds loaded on the pay card. This will eliminate issuing checks to individuals and the subsequent outstanding checks.

3. IMPROVEMENTS NEEDED IN CASH MANAGEMENT CONTROLS

Our audit disclosed that the HSO needs to strengthen its internal controls over its cash management practices and make improvements in the monitoring of its cash management and investment policies over locally held funds. We found that HSO is not a) timely remitting or disposing of unclaimed checks not presented for payment from its bank accounts within one year from their date of issue as required by law; or b) procuring banking services as required by the OST, which may have resulted in the HSO potentially losing interest which could be distributed to the Inmate Commissary Fund for the benefit of its inmates and/or used to support its Civil Process Division's (CPD) operations. Specifically, we noted the following:

- a) Our review of 10 checking accounts maintained by HSO disclosed 1,196 checks totaling \$43,181 ranging from \$.47 to \$753 in five accounts which had been outstanding for more than a year, including checks dating back to May of 2002. Our review of the January 31, 2009 bank statements and the HSO reconciliations indicated that there were 185 old outstanding checks in four HSO accounts totaling \$6,861 and 1,011 checks from the CPD checking account totaling \$36,320, as detailed below.

<u>Checking Accounts</u>	<u>Number of Outstanding Checks</u>	<u>Total Amount</u>	<u>Check Drawn Dates</u>		<u>Check Range Amounts</u>	
			<u>From</u>	<u>To</u>	<u>Low</u>	<u>High</u>
Main Institution Inmate Checking	112	\$ 4,245	May 2002	January 2008	\$ 2	\$390
Western Massachusetts Correctional Alcohol Center	65	2,153	August 2006	January 2008	1	753
Inmate Commissary Fund	5	428	April 2004	September 2007	17	240
Western Massachusetts Women's Regional Correctional Center	3	35	December 2007	January 2008	9	16
Civil Process Fund	<u>1,011</u>	<u>36,320</u>	September 2004	January 2007	<u>1</u>	<u>270</u>
Total All Accounts	<u>1,196</u>	<u>\$43,181</u>	May 2002	January 2008	<u>\$ 1</u>	<u>\$753</u>

Chapter 29, Section 32, of the Massachusetts General Laws requires that checks outstanding over one year be transferred to the OST Unpaid Check Fund (UCF), as follows:

Any check issued by the State Treasurer or by any agent or agency of the Commonwealth, other than checks issued in payment of obligations of the State Board of Retirement and the Teachers' Retirement Board, which is not presented for payment within one year from its date shall be payable only at the Office of the State Treasurer. On the thirtieth day of June in each year the Comptroller shall transfer to the abandoned property fund all funds which are identified by the State Treasurer as funds of the Commonwealth which have remained in the unclaimed check fund for at least one year.

The HSO administrative policy and procedures for handling unclaimed checks is not identified or referenced within its Internal Control Plan. As a result, HSO was not in compliance with Chapter 29, Section 32, of the General Laws, which requires that outstanding funds be transferred to the OST. In addition, retaining outstanding or returned checks without timely disposition is not an efficient or economical use of HSO's fiscal resources, and the rightful owners of these funds are not receiving the funds to which they are entitled.

HSO officials stated they have not been able to comply with policies and procedures under Massachusetts General Laws, Chapter 29, Section 32, Unclaimed Check Fund for quite a few years as HSO is unable to create a master listing to provide all of the required information of all unclaimed checks to send electronically to the OST. In this regard, we found that the HSO has not maintained a detailed list of the payees on many of the older outstanding checks because during the course of the HSO monthly reconciliations process, payees' names were dropped from the monthly listings and only check numbers were identified. In order to identify the payee, the HSO will have to research old check registers and disbursement listings.

- b) HSO did not comply with OST's requirement for procuring banking services, as outlined in a March 16, 2007 Memorandum to Chief Fiscal Officers – Authority for Banking Activity, when changing its primary bank. As a result, inadequate cash management and investment practice may have resulted in approximately \$18,975 of lost potential interest income, annually. The OST, in the Memorandum to Chief Fiscal Officers, stated the following:

The purpose of this memorandum is to explain the Treasury's policies on the banking services that are provided under the existing banking contracts, how any additional services will be charged back to agencies, and how new accounts may be added.

As part of the Treasury's responsibility to effectively manage banking services, our office must give authorization prior to the opening of any new bank account and/or service.

Please note that you may contact our banking services vendors to inquire about information on the benefits and costs of the services they provide; however, they have been instructed not to add any new services without prior Treasury approval.

Any RFP or other procurement for banking services must include representation from the Treasurer's office.

HSO's Core Policy and Protocol Chapter 1, Administration & Management, Section 2, Fiscal Management, Number 5 - Inmate Funds states, in part:

Policy Statement: HSO has inmate funds that are maintained in a general "Inmate Cash Fund" to insure proper handling and accounting of procedures of deposits and pre-approved expenditures. The HSO is responsible for sound fiscal Management including internal controls and signature control of checks.

Protocol 1: Inmate Funds (F.) Inmate Cash Funds interest accrued is deposited into the Inmate Commissary Fund to benefit the inmates.

Protocol 10: Unclaimed Funds After two years, unclaimed money belonging to released inmates is paid over to the State Treasurer according to Massachusetts General Law Chapter 35 Section 23A.

Prudent cash management practices call for the maximization of interest earnings, all account balances to be covered by deposit insurance, and that funds be available as needed.

During our audit period, HSO changed its primary banking relationship and as of January 31, 2009, had six free business checking accounts totaling \$591,366. These accounts are non-interest bearing as follows:

<u>Accounts</u>	<u>Balance as of January 31, 2009</u>
Main Institution	\$ 119,730
Western Massachusetts Correctional Alcohol Center	189,543
Western Massachusetts Women's Regional Correctional Center	40,233
Inmate Commissary Fund	181,426
Criminal Justice Organization	54,434
Master Account	<u>6,000</u>
Total All Accounts	<u>\$ 591,366</u>

If the HSO were to invest these funds, an average of \$550,000 (currently in non-interest-bearing accounts), at an interest rate of 2.75% (in effect during the period under audit), an extra \$15,125 of potential interest income could be earned annually for deposit into the Inmate Commissary Fund to benefit the inmates or to other funds as directed by the HSO. Additionally, we also noted that the CPD had excessive deposits in checking and other non-interest-bearing accounts during the months of June 30, 2008 and January 31, 2009, as noted in the following table.

<u>Account Type</u>	<u>June 30, 2008</u>		<u>January 31, 2009</u>	
	<u>Ending</u>	<u>Average Ledger</u>	<u>Ending</u>	<u>Average Ledger</u>
Non-Interest Bearing	\$254,222	\$ 208,420	\$157,569	\$206,796
Interest Bearing	<u>111,411</u>	<u>111,388</u>	<u>111,568</u>	<u>111,548</u>
Total Balance	<u>\$365,633</u>	<u>\$319,808</u>	<u>\$269,137</u>	<u>\$318,344</u>

Our review further indicated that the CPD maintained an average cash balance within its business checking account of approximately \$180,000 during the audit period that earned no interest. These funds appeared excessive to the monthly needs of the CPD operations and could be more prudently invested with enhanced monitoring of CPD's cash flow. Additionally, we found that two business savings accounts were maintained with average balances of approximately \$81,000, which received approximately .25 of 1% interest annually. If the HSO had invested \$100,000 of the business checking funds and the \$81,000 of business savings at an interest rate of 2.75%, an extra \$3,850 of potential interest could have been earned annually.

HSO indicated that it would review the cash management practices in order to maximize potential interest income.

Recommendation

The HSO should:

- Review and, if necessary, establish new policies and procedures to ensure that outstanding checks are timely identified and any outstanding unclaimed check over one year old is remitted to the OST as required.
- HSO should seek guidance from the OST and utilize all of the assistance available in complying with OST's requirements for procurement of banking services with the goal of prudently investing all accounts in order to maximize future potential interest income to benefit the inmates and other HSO accounts.

Auditee's Response

As stated in Audit Result No. 2, the HSO will review outstanding checks and credit the appropriate account and will work with the State Treasurer's Office to revert the dormant accounts. The HSO works closely with the banking industry to provide the best possible services for the Inmate Accounts Fund. The account is set up with an earnings credit that offsets most of the fees that could be imposed because of the large volume of the checks and deposits. The account must be a checking account. Checking accounts per banking regulations do not earn interest. We are not able to invest the funds because of the required liquidity of the funds and the lack of insurance that the banking industry can provide on that level of funds. The HSO researched the services for the local banks for the services that would best suit the high level of transactions and availability of branches to released inmates.

Chapter 29, Section 23 applies to State Agencies that are within the Executive or Legislative Department and not Non-Executive Departments. Prudent cash management and business practices were followed.

Chapter 29: Section 23. Advancements from treasury; management of state agency funds; funding of checks and drafts

Section 23. Any officer authorized to expend money in behalf of the commonwealth may have money advanced to him from the treasury for such purposes, in such sums and subject to such rules and regulations as the comptroller may determine.

The state treasurer shall manage all cash, funds, or investments under the control or jurisdiction of any state agency, other than nonappropriated funds held by a public institution of higher education. "State agency" shall mean any department, office, commission, committee, council, board, division, bureau, institution, office or other agency within the executive or legislative department, excluding, however, the Massachusetts Bay Transportation Authority, the Massachusetts Turnpike Authority, and the Massachusetts Port Authority. Funds shall be deemed to be under the control of a state agency from the date of the initial deposit into any commonwealth account until the date a check or draft drawn on a commonwealth account clears the disbursing bank.

The state treasurer shall provide for the funding of checks or drafts drawn by any state officer, department, institution or other agency, which has received proper authority to expend money on behalf of the commonwealth.

Auditor's Reply

Contrary to the position that the HSO has taken that it, as a non-Executive Department, does not have to comply with Chapter 29, Section 23, of the General Laws, this legislation does apply to the HSO. In addition, the OST in its memorandum was clear that any Request for Proposal (RFP) or other procurement for banking services must include representation from the OST. Further, the OST memorandum is supported by the following legislation that mandates that agencies deposit monies as designated by the OST, as follows:

Section 34. (a) State officers, departments, institutions and other agencies may deposit a portion of the public monies in their possession in national banks, federal savings banks, and federal savings and loan associations, lawfully doing business within the commonwealth, and in trust companies, savings banks and cooperative banks chartered under the laws of the commonwealth, as shall be designated by the state treasurer from a list of depositories prepared by him and approved at least once in 3 months by the governor and council.

In the future, the HSO should contact the OST for guidance and direction when procuring banking arrangements and addressing large bank balances in its checking accounts. In addition, the HSO should contact the Department of Corrections (DOC) to consult with them on how the DOC, with its larger volume of inmate activity, is managing, handling, and accounting for its inmate funds and its processing of unclaimed money belonging to released inmates to ensure these are funds being paid over to the OST in a timely manner in accordance with Chapter 35, Section 23A. This action will place the HSO in compliance with its own Protocol: 10-Unclaimed Funds going forward.

4. INTERNAL CONTROLS WITHIN CIVIL PROCESS DIVISION NEED IMPROVEMENT

Prior to August 27, 2007, Hampden County Sheriffs, Inc. (HCSI), a for-profit corporation that employed 27 full- and part-time employees, was responsible for serving civil process under the direction and authorization of the Sheriff. On August 27, 2007, the HCSI was legally abolished. Subsequently, the members of the HCSI have applied to be a political subdivision of the HSO and are presently awaiting a final decision from Internal Revenue Service on the abolishment of the for-profit corporation as required under the Internal Revenue Code, Section 115. During the audit period, we noted that the Civil Process Division (CPD) has transferred the civil process

responsibilities into a division of the HSO. CPD employees continue to be paid from revenues collected in the service of civil process, and are not considered employees of the Commonwealth of Massachusetts. (See Audit Result No. 1d.)

We reviewed the CPD's established internal controls and operating policies and procedures. Our review disclosed that HSO has no formal written operating policies and procedures pertaining to the operations of the CPD. Additionally, the CPD is not identified in the HSO's Internal Control Plan (ICP) and did not address procedures for conducting a risk assessment as required by OSC guidelines. (See Audit Result No. 1b.)

Our review included an examination of the bank reconciliations, cash management, and general reporting practices and disclosed the following issues:

- The CPD, as of January 31, 2009, was holding 1,011 checks totaling \$36,320 ranging from \$.47 to \$271 that were not presented for payment within one year from their date of issue. These checks should be immediately turned over to the OST as required. (See Audit Result No. 3a).
- HSO did not consider the CPD cash balances of \$320,937 on June 30, 2008 when submitting its fiscal year 2008 GAAP report. Assets held in trust were reported as \$539,231, but should have been reported as \$996,638. (See Audit Result No. 1c.)
- The CPD issued 31 2008 IRS Forms 1099 MISC Income totaling \$74,504 for law enforcement services paid in calendar year 2008 and remitted copies directly to the IRS, not to the Comptroller's Tax Clearinghouse for filing to the IRS.

The OSC's Comptroller Memo FY#2009-18 Issuing and Filing IRS Forms 1099 for Tax Year 2008 states, in part:

When a department makes a reportable payment to a reportable payee and does not use a MMARS vendor-specific vendor code, the department is responsible for issuing the appropriate federal income tax form directly to the payee, with copies sent to the Comptroller's Tax Clearinghouse for filing to the IRS.

Recommendation

HSO should review the CPD in regard to the Commonwealth's laws, rules, and regulations. As part of this review, action should be taken to improve the internal controls and policies and procedures within the CPD, including addressing the issues and results identified above within the CPD. Also, internal controls and policies and procedures should be periodically reviewed and updated to reflect current operating conditions.

Auditee's Response

The HSO is in the process of having the jail's standards and compliance team begin to develop proper protocols for this division. We are researching through the National Sheriff's Association to determine if there are standards in place that we can use as a foundation.

APPENDIX

Chapter 647, Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies

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Chapter 647

THE COMMONWEALTH OF MASSACHUSETTS

In the Year One Thousand Nine Hundred and Eighty-nine

AN ACT RELATIVE TO IMPROVING THE INTERNAL CONTROLS WITHIN STATE AGENCIES.

Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:

Notwithstanding any general or special law to the contrary, the following internal control standards shall define the minimum level of quality acceptable for internal control systems in operation throughout the various state agencies and departments and shall constitute the criteria against which such internal control systems will be evaluated. Internal control systems for the various state agencies and departments of the commonwealth shall be developed in accordance with internal control guidelines established by the office of the comptroller.

(A) Internal control systems of the agency are to be clearly documented and readily available for examination. Objectives for each of these standards are to be identified or developed for each agency activity and are to be logical, applicable and complete. Documentation of the agency's internal control systems should include (1) internal control procedures, (2) internal control accountability systems and (3), identification of the operating cycles. Documentation of the agency's internal control systems should appear in management directives, administrative policy, and accounting policies, procedures and manuals.

(B) All transactions and other significant events are to be promptly recorded, clearly documented and properly classified. Documentation of a transaction or event should include the entire process or life cycle of the transaction or event, including (1) the initiation or authorization of the transaction or event, (2) all aspects of the transaction while in process and (3), the final classification in summary records.

(C) Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority. Authorizations should be clearly communicated to managers and employees and should

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Include the specific conditions and terms under which authorizations are to be made.

(D) Key duties and responsibilities including (1) authorizing, approving, and recording transactions, (2) issuing and receiving assets, (3) making payments and (4), reviewing or auditing transactions, should be assigned systematically to a number of individuals to ensure that effective checks and balances exist.

(E) Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. The duties of the supervisor in carrying out this responsibility shall include (1) clearly communicating the duties, responsibilities and accountabilities assigned to each staff member, (2) systematically reviewing each member's work to the extent necessary and (3), approving work at critical points to ensure that work flows as intended.

(F) Access to resources and records is to be limited to authorized individuals as determined by the agency head. Restrictions on access to resources will depend upon the vulnerability of the resource and the perceived risk of loss, both of which shall be periodically assessed. The agency head shall be responsible for maintaining accountability for the custody and use of resources and shall assign qualified individuals for that purpose. Periodic comparison shall be made between the resources and the recorded accountability of the resources to reduce the risk of unauthorized use or loss and protect against waste and wrongful acts. The vulnerability and value of the agency resources shall determine the frequency of this comparison.

Within each agency there shall be an official, equivalent in title or rank to an assistant or deputy to the department head, whose responsibility, in addition to his regularly assigned duties, shall be to ensure that the agency has written documentation of its internal accounting and administrative control system on file. Said official shall, annually, or more often as conditions warrant, evaluate the effectiveness of the agency's internal control system and establish and implement changes necessary to ensure the continued integrity of the system. Said official shall in the performance of his duties ensure that: (1) the documentation of all internal control systems is readily available for examination by the comptroller, the secretary of administration and finance and the state auditor, (2) the results of audits and recommendations to improve departmental internal controls are promptly evaluated by the agency management, (3) timely and appropriate corrective actions are effected

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by the agency management in response to an audit and (4), all actions determined by the agency management as necessary to correct or otherwise resolve matters will be addressed by the agency in their budgetary request to the general court.

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. Said auditor shall also determine the internal control weaknesses that contributed to or caused the condition. Said auditor shall then make recommendations to the agency official overseeing the internal control system and other appropriate management officials. The recommendations of said auditor shall address the correction of the conditions found and the necessary internal control policies and procedures that must be modified. The agency oversight official and the appropriate management officials shall immediately implement policies and procedures necessary to prevent a recurrence of the problems identified.

House of Representatives, December 21, 1989.

Passed to be enacted, *George Luvaan*, Speaker.

In Senate, December 22, 1989.

Passed to be enacted, *William W. Budge*, President.

January 3, 1990.

Approved,

Richard Riordan, Governor.