



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

Making government work better

Official Audit Report – Issued August 6, 2014

Hampshire County Sheriff's Office

For the period July 1, 2012 through December 31, 2013





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

Making government work better

August 6, 2014

Sheriff Robert J. Garvey
Hampshire County Sheriff's Office
205 Rocky Hill Road
Northampton, MA 01060

Dear Sheriff Garvey:

I am pleased to provide this performance audit of the Hampshire County Sheriff's Office. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2012 through December 31, 2013. My audit staff discussed the contents of this report with management of the agency, and their comments are reflected in this report.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written over a light blue circular watermark.

Suzanne M. Bump
Auditor of the Commonwealth

TABLE OF CONTENTS

EXECUTIVE SUMMARY 1

OVERVIEW OF AUDITED AGENCY 3

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY 4

DETAILED AUDIT RESULTS AND FINDINGS WITH AUDITEE’S RESPONSE 8

1. The Hampshire County Sheriff’s Office should improve its internal controls over its bank reconciliation process. 8

a. HSO did not segregate duties over the preparation of bank reconciliations of the Inmate Custodial Fund..... 8

b. HSO did not retain copies of bank statement reconciliations of the Inmate Benefit Fund..... 9

2. Since the prior audit, HSO has made improvements to inventory reporting, but further effort is needed in segregating inventory duties and updating the inventory list promptly..... 10

3. Since the prior audit, HSO has succeeded in preparing its GAAP report. 12

EXECUTIVE SUMMARY

This audit of the Hampshire County Sheriff's Office (HSO) for the period July 1, 2012 through December 31, 2013 was initiated at the request of HSO. Our audit objectives included determining the following:

1. Whether HSO maintained adequate inventory control over its non-generally accepted accounting principles (non-GAAP) fixed asset furniture and equipment, vehicle, and food inventories; budgeted appropriations; Inmate Custodial Fund; and Inmate Benefit Fund that was suitably designed and implemented to safeguard Commonwealth assets and ensure compliance with the Office of the State Comptroller's (OSC's) Internal Control Guide and Chapter 647 of the Acts of 1989.
2. Whether HSO had financial records involving its budgeted appropriations, Inmate Custodial Fund, and Inmate Benefit Fund that were accurate, up to date, and maintained in accordance with established criteria.
3. Whether HSO had payroll expenditures that were appropriate and processed in accordance with laws, regulations, and applicable union contracts.
4. Whether HSO procured goods and services in accordance with internal policies.

In addition, we assessed the status of issues that were identified in our prior audit report (No. 2009-1436-3S) and were related to our current audit objectives.

HSO was established as an independent state agency on September 1, 1999 as a result of the abolition of the Hampshire County government pursuant to Chapter 300 of the Acts of 1998. Chapter 127 of the Acts of 1999 amended the Massachusetts General Laws by adding Chapter 34B, which stipulated that the Hampshire County Sheriff became an employee of the Commonwealth, but remained an elected official, and retained administrative and operational control over HSO, the Hampshire County Jail, and the Hampshire County House of Correction. HSO has an inmate capacity of 287 inmates and had an average of 258 inmates during our audit period.

Summary of Findings

- We identified two instances within the Inmate Custodial Fund where no segregation of duties existed between the responsibility of reconciling the bank statements and that of writing checks. As a result, the funds involved in these instances are susceptible to loss or misuse.
- During our audit period, the monthly reconciliations of the Inmate Benefit Fund that were said to be performed were not retained by HSO and available for audit purposes. As a result, HSO

cannot substantiate that it properly recorded all transactions in its accounting records, and its funds may be vulnerable to loss, theft, or misuse.

- During our previous audit period, HSO had non-GAAP inventory listings that needed to be improved and updated. Items on the inventory list were missing costs, purchase dates, and identifying tag numbers. In addition, HSO's policies and procedures for non-GAAP inventory items needed to be reviewed and updated with references to current OSC guidelines. Since our previous audit, HSO has updated its policies and procedures for non-GAAP inventory items, but the policies and procedures do not adequately segregate duties related to inventory. Since one person is responsible for the entire inventory process, and the functions are not segregated so one person's work serves as a check on another's, there is a risk that errors or irregularities, such as theft, in the inventory could occur and go undetected. In addition, during the current audit period, HSO did not properly record two items on its inventory list. If assets are not recorded properly, they may be at risk of loss, misuse, or misappropriation, and they may not be reflected correctly on reports filed with OSC.

Recommendations

- HSO should continue to delegate the responsibility of reconciling the Inmate Custodial Fund bank account to the data entry clerk. HSO management should train an individual not involved in signing checks (i.e., an employee outside the Finance department) to reconcile the account when the data entry clerk is unable to perform the monthly bank reconciliation.
- HSO should retain records of all of its monthly bank reconciliations so that adequate documentation exists to substantiate that this control activity is being performed.
- HSO should continue to improve its procedures for non-GAAP fixed asset inventory. To accomplish this, HSO should (1) assign individuals who are not responsible for maintaining the inventory records to perform the annual physical inventory and (2) update its inventory records in a timely manner to document the acquisition and disposal of inventory.

OVERVIEW OF AUDITED AGENCY

Background

The Hampshire County Sheriff's Office (HSO) was established as an independent state agency on September 1, 1999, as a result of the abolition of the Hampshire County government pursuant to Chapter 300 of the Acts of 1998. Chapter 127 of the Acts of 1999 amended the Massachusetts General Laws by adding Chapter 34B, which stipulated that the Hampshire County Sheriff became an employee of the Commonwealth, but remained an elected official. The Sheriff also retained administrative and operational control over HSO, the Hampshire County Jail, and the Hampshire County House of Correction.

According to its website, HSO's primary mission is "the care and custody of inmates" and its philosophy is "to promote reintegration while protecting society and to hold the offender at the lowest level of security consistent with public safety." HSO is responsible for running and overseeing all aspects of its facilities, which consist of HSO, the Jail, the House of Correction, the Pre-release Center, and the Community Corrections Center. In addition to operating these facilities, HSO has an extensive inmate support network consisting of multiple programs, including various adult basic education classes, health education, job training and life skills management programs, parent education, special education, and other social and educational programs. As of December 31, 2013, HSO had 182 employees and an inmate capacity of 287. During our audit period, HSO had an average of 258 inmates. For fiscal years 2013 and 2014, HSO received appropriations of \$12,818,054 and \$13,154,658, respectively, to fund its operations. The HSO functions as the custodian of assets held in trust for the benefit of inmates. HSO established a separate account in which it deposits any donations or commissions earned for expenditures that are to the benefit of the general inmate population (the Inmate Benefit Fund). Additionally, HSO is responsible for the receipt of, disbursement of, and accounting for individual inmates' funds during each inmate's period of incarceration; it administers these through the Inmate Custodial Fund. These funds are managed in a separate bank account established for this purpose.

In addition to its correctional programs, HSO is responsible for the service of legal papers and notices through its Civil Process Division (CPD). The CPD employs four part-time deputies and three full-time employees of the Commonwealth of Massachusetts.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Hampshire County Sheriff's Office (HSO) for the period July 1, 2012 through December 31, 2013.

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

The audit was initiated at the request of HSO. Our audit objectives included determining the following:

1. Whether HSO maintained adequate inventory control over its non-generally accepted accounting principles (non-GAAP) fixed asset furniture and equipment, vehicle, and food inventories; budgeted appropriations; Inmate Custodial Fund; and Inmate Benefit Fund that was suitably designed and implemented to safeguard Commonwealth assets and ensure compliance with the Office of the State Comptroller's (OSC's) Internal Control Guide and Chapter 647 of the Acts of 1989.
2. Whether HSO had financial records involving its budgeted appropriations, Inmate Custodial Fund, and Inmate Benefit Fund that were accurate, up to date, and maintained in accordance with established criteria.
3. Whether HSO had payroll expenditures that were appropriate and processed in accordance with laws, regulations, and applicable union contracts.
4. Whether HSO procured goods and services in accordance with internal policies.

In addition, we assessed the status of issues that were identified in our prior audit report (No. 2009-1436-3S) and were related to our current audit objectives.

To accomplish our objectives, we performed the following audit procedures:

- We reviewed furniture and equipment, vehicle, and food inventory listings and assessed their accuracy and completeness by performing testing.
- We sampled inventory disposals made during the audit period to determine whether adequate controls existed over this activity.

- We reviewed inventory procedures for recording acquisitions, disbursements, relocations, and the performance of a periodic physical inventory.
- We reviewed procedures for reporting lost, stolen, or misused assets.
- We reviewed Chapter 647 reports¹ filed by HSO during the audit period (if any).
- We reviewed HSO's internal control plan and risk assessments prepared during the audit period for compliance with OSC regulations.
- We reviewed internal controls over the receipt, disbursement, reconciliation, and monitoring of fiscal activity related to our audit objectives.
- We sampled cash receipts, disbursements, and bank reconciliations of the Inmate Benefit Fund and Inmate Custodial Fund for proper reporting.
- We sampled HSO procurements for goods and services to ensure conformance to HSO's procurement procedures.
- We reviewed the GAAP report² completed by HSO during the audit period for compliance with OSC regulations.
- We sampled inmate custodial account funds on hand to ensure that they were being administered in accordance with Chapter 127, Section 96A, of the General Laws.
- We sampled payroll transactions during the audit period and acquired support to substantiate the accuracy of payroll transactions and that transactions were processed in accordance with union contracts and applicable laws and regulations.
- We reviewed the findings of our previous audit report (No. 2009-1436-3S) and performed follow-up testing on prior issues that affected current audit objectives.

To obtain audit evidence in order to achieve our objectives, we selected certain transactions, by using judgmental or random, non-statistical sampling approaches, which enabled us to ensure that we reviewed the Inmate Custodial Fund, Inmate Benefit Fund, budgeted appropriations, procurement, payroll, and inventory to determine whether they were adequately supported, reasonable, and in compliance with HSO policies and state legislation. We did not project the results of the samples to the population. More specifically, we selected transactions as follows:

¹ These reports are filed according to Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies, which requires agencies to file a report with the Office of the State Auditor if they find any "unaccounted for variances, losses, shortages or thefts of funds or property."

² The Commonwealth reports on the basis of GAAP as defined for governments by the Governmental Accounting Standards Board. These reports are submitted annually to OSC and are used in the development of the Commonwealth's Comprehensive Annual Financial Report.

- For testing of payroll, incentive pay, hours, and salary increases, we judgmentally selected 5 out of the 40 pay periods during the audit period. We randomly selected 20 out of 222 employees, from each of the 5 judgmentally selected pay periods, to review for payroll, incentive pay, hours, and salary increases.
- For testing of inmate custodial account funds on hand to ensure that funds were being administered in accordance with Chapter 127, Section 96A, of the General Laws, there were 347 inmate accounts, from which we judgmentally selected 35 items.
- For testing of bank account reconciliations for the Inmate Custodial Fund, there were 18 reconciliations, from which we randomly selected 5 items.
- For testing of internal controls and recording of administrative expenses within the Inmate Custodial Fund, there were 1,425 disbursements, from which we randomly selected 45 items.
- For testing of internal controls and recording of receipts within the Inmate Custodial Fund, there were 378 deposits made during our audit period, with a recalculated average of 29.73 receipts per deposit. This gave us a total population of approximately 11,239, from which we randomly selected 45 items.
- For testing of internal controls and recording of administrative expenses within the Inmate Benefit Fund, there were 420 disbursements, from which we randomly selected 35 items.
- For testing of internal controls and recording of cash receipts within the Inmate Benefit Fund, there were 97 receipts, from which we randomly selected 15 items.
- For testing of procurement of goods and services in compliance with HSO policies, we identified 61 vendors to which HSO paid \$5,000 or more during our audit period, from which we judgmentally selected 12 vendors to review expenditures in excess of \$5,000.
- For testing of inventory procedures and completeness of the list of furniture and equipment, there were 677 assets, from which we randomly selected 45 items.
- For testing of inventory procedures and completeness of the list of vehicles, there were 36 items, from which we randomly selected 5 items.
- For testing of inventory procedures and completeness of the list of food, there were 204 types of items, from which we randomly selected 20 types.

To accomplish our objectives regarding procurement procedures and controls over appropriated funds, we analyzed data from the Commonwealth's Massachusetts Management Accounting and Reporting System. The electronic data sources used for this analysis constitute the official procurement and accounting records of the Commonwealth, are widely accepted as accurate, and form the basis for the Commonwealth's audited annual financial statements. Accordingly, our audit did not involve a comprehensive assessment of the reliability of source Commonwealth data.

However, we did perform analytical procedures such as comparisons and reconciliations to available expenditure summary totals in HSO's accounts to confirm that the Commonwealth database information we used was consistent with other available information. Based on that analysis, we concluded that the data used were sufficiently reliable for the background information, sampling methodology, and other purposes of our report.

We gained an understanding of the internal controls we deemed significant to our audit objectives and evaluated the design and effectiveness of those controls. Specifically, we performed procedures such as interviewing HSO staff members and reviewing relevant hardcopy source documents, statutes, and regulations as well as HSO's policies, procedures, and accounting records and performed tests of these records and transactions, where necessary. We did not rely on computer-processed data for our audit purposes. We believe the information we obtained was sufficient for the purposes of our analysis and findings.

Based on our audit, we have concluded that for the period July 1, 2012 through December 31, 2013, HSO maintained adequate inventory controls over food and vehicles; maintained adequate internal controls over appropriated funds; maintained financial records involving its budgeted appropriations, Inmate Custodial Fund, and Inmate Benefit Fund that were accurate, up to date, and maintained in accordance with established criteria; had payroll expenditures that were appropriate and processed in accordance with laws, regulations, and applicable union contracts; procured goods and services in accordance with internal policies; and, as recommended in our previous audit report, filed a GAAP report with OSC that complied with applicable guidelines. However, HSO needs to improve its controls over reconciling the Inmate Custodial Fund and the Inmate Benefit Fund. Additionally, HSO has made improvements in reporting and monitoring furniture and equipment inventory. However, improvements are needed to adequately segregate duties and maintain accurate inventory records.

DETAILED AUDIT RESULTS AND FINDINGS WITH AUDITEE'S RESPONSE

Audit Findings

1. The Hampshire County Sheriff's Office should improve its internal controls over its bank reconciliation process.

The Hampshire County Sheriff's Office (HSO) should make improvements to its internal controls over the reconciliation process within the Inmate Custodial Fund and Inmate Benefit Fund. Within the Inmate Custodial Fund, we identified two instances where no segregation of duties existed between the responsibility of reconciling the bank statements and that of writing checks. The lack of segregation of duties leaves state funds susceptible to loss or misuse. Within the Inmate Benefit Fund, monthly reconciliations for our audit period were not retained by HSO and available for review for audit purposes. As a result, HSO cannot substantiate that it properly recorded all transactions in its accounting records, and its funds may be vulnerable to loss, theft, or misuse.

a. HSO did not segregate duties over the preparation of bank reconciliations of the Inmate Custodial Fund.

Within the Inmate Custodial Fund, we identified two instances where no segregation of duties existed between the responsibility of reconciling the bank statements and that of writing checks. Our testing revealed that for 2 out of the 18 months of bank reconciliations tested, the finance manager, who is a check signer, was also the employee who prepared the monthly bank reconciliation of the Inmate Custodial Fund. HSO's internal control policies and procedures state that the data entry clerk is to perform the reconciliations because that employee is not a part of the check-signing process. As a result of the lack of segregation of duties, these funds are susceptible to loss or misuse.

Authoritative Guidance

The Office of the State Comptroller's (OSC's) Internal Control Guide states,

An individual or small group of individuals should not be in a position to initiate, approve, undertake and review the same action. . . . Maintaining segregation of duties is especially challenging for units with small numbers of employees. Managers of such departments must consider this principle when designing and defining job duties; they must implement control procedures to assure segregation of duties exists. In an environment with limited numbers of personnel, management should develop alternate management procedures or reports to monitor financial activity or, if necessary, be involved in day-to-day activities of the unit, bureau or office.

Reasons for Lack of Segregation of Duties

When the data entry clerk is busy, the finance manager performs the reconciliations. Other than the data entry clerk, no employee in the Finance department can be assigned to perform the Inmate Custodial Fund reconciliation without a segregation-of-duties issue existing because the Finance department is small.

Recommendations

HSO should continue to delegate the responsibility of reconciling the Inmate Custodial Fund bank account to the data entry clerk. HSO management should train an individual not involved in signing checks (i.e., an employee outside the Finance department) to reconcile the account when the data entry clerk is unable to perform the monthly bank reconciliation.

Auditee's Response

The auditors are correct that the reason the reconciliation in two months was completed by the Finance manager is because the department is so small no other employee was available to perform that task. We disagree that the funds were susceptible to loss or misuse because the clerk reviewed the reconciliation completed by the Finance manager upon her return. However, if the scenario were again to happen the CFO will conduct the reconciliation in order to demonstrate complete separation of duties.

b. HSO did not retain copies of bank statement reconciliations of the Inmate Benefit Fund.

During our audit period, the monthly reconciliations of the Inmate Benefit Fund that were said to be performed were not retained by HSO and available for audit purposes. As a result, HSO cannot substantiate that it properly recorded all transactions in its accounting records, and its funds may be vulnerable to loss, theft, or misuse.

Authoritative Guidance

Per HSO's internal control plan, which encompasses the Inmate Benefit Fund along with other HSO accounts, "all fiscal documents/correspondence must be systematically filed to facilitate later retrieval for audit purposes."

Reasons for Lack of Evidence of Monthly Bank Reconciliations

The finance manager stated that the reconciliations were being performed monthly in HSO's system but were never printed out and saved. There was no way to go back into the system to retrieve them. Additionally, HSO's internal control procedures did not specifically state that

HSO was required to retain copies of the bank reconciliations performed. However, a bank reconciliation is, by its nature, a fiscal document; in the view of the Office of the State Auditor, a policy on fiscal documents also applies to bank reconciliations.

Recommendation

HSO should retain records of all of its monthly bank reconciliations so that adequate documentation exists to substantiate that this control activity is being performed.

Auditee's Response

The printing and retention of the reconciliations began in February of 2014 thus, there is no longer an issue in this area. We believe retaining the work papers is a prudent recommendation from the SAO. However we disagree that there was ever a risk of loss, theft, or misuse of the funds due to our internal controls. The checkbook balance agrees with the bank statement balance each month. The reconciled numbers are reviewed by the CFO when signing the checks for the account. The CFO is also provided a monthly Income/Expense report through Quicken for this account by the Finance manager. Any irregularities would be caught when this report is reviewed. Therefore although the reconciliation was not retained, the bank's monthly statement matching the balanced statement of the checkbook verifies that no funds are missing each month and the Quicken report reviewed by the CFO ensured funds were never in jeopardy of loss or misuse.

2. Since the prior audit, HSO has made improvements to inventory reporting, but further effort is needed in segregating inventory duties and updating the inventory list promptly.

During our previous audit period, HSO had non–generally accepted accounting principles (non-GAAP) inventory listings that needed to be improved and updated. Items on the inventory list were missing costs, purchase dates, and identifying tag numbers. In addition, HSO's policies and procedures for non-GAAP inventory items needed to be reviewed and updated with references to current OSC guidelines.

During our current audit period, HSO improved the system by establishing a computerized inventory. This allows HSO to organize inventory by location and to include costs, purchase dates, and inventory tag numbers in the inventory system.

Since our previous audit, HSO has updated its policies and procedures for non-GAAP inventory items to document which information must be reported and to increase the cost threshold for inclusion on the inventory to \$500. However, these policies and procedures did not adequately segregate duties over the performance of the physical inventory and maintenance of the inventory list: the same employee performs the inventory and also maintains the list. Since one person is

responsible for the entire inventory process, and the functions are not segregated so one person's work serves as a check on another's, there is a risk that errors or irregularities, such as theft, in the inventory could occur and go undetected.

We also selected 45 items to verify that HSO properly tagged, maintained, and accounted for furniture and equipment in its care and control that originally cost \$500 or more. We tested the HSO furniture and equipment inventory by judgmentally selecting these items to verify that they were properly reflected on the inventory list. We found that HSO did not properly record 2 inventory items on the list. One item did not have the correct identifying inventory barcode number recorded on the list. Another was no longer in HSO's possession but had not been removed from the list. If assets are not recorded properly, they may be at risk of loss, misuse, or misappropriation, and they may not be reflected correctly on reports filed with OSC.

In its Internal Control Guide, OSC requires state agencies, including courts, to institute controls to protect their equipment, information, documents, and other resources that could be wrongfully used, damaged, or stolen. OSC also requires that assets that originally cost \$1,000 or more be recorded in a department's inventory perpetual record; reconciled with the physical inventory at least annually; and included in the inventory record with the following identifiers at a minimum: date of purchase, cost, description, location, and disposal of an inventory item. Further, in its Fixed Assets Acquisition Policy, OSC requires that non-GAAP fixed assets (which it defines as including vehicles, equipment, furniture, computer software, and all electrical and computer components with a useful life of more than one year and with an original cost between \$1,000 and \$49,999) be recorded in a department's inventory. Finally, HSO's inventory control procedures require each piece of equipment to be identified with an inventory barcode.

Recommendation

HSO should continue to improve its procedures for non-GAAP fixed asset inventory. To accomplish this, HSO should (1) assign individuals who are not responsible for maintaining the inventory records to perform the annual physical inventory and (2) update its inventory records in a timely manner to document the acquisition and disposal of inventory.

Auditee's Response

The HSO has purchased a bar coded driven inventory system to record all non-GAAP assets. The department far exceeds the Office of the State Comptroller's requirement of recording assets with

an initial value of \$1,000 or more. The HSO records items with values of \$500 or more. The two items found to be not properly recorded on the audit included a time clock that was sent back to the vendor and a camera that had a typo on the inventory tag. Of the 655 items listed in the HSO inventory only 250 are required to be recorded by OSC. By maintaining a much lower recording threshold the HSO is seeking to go well beyond state requirements to protect the Commonwealth's assets. However, by recording such a large number of items the department does subject itself to greater scrutiny on the possibility of small errors. We will be re-evaluating our policy of retaining the threshold that is much lower than that required by the Commonwealth.

The auditors recommend that the inventory be performed by a person other than the employee that maintains the inventory records. Again due to limited staff and to create efficiency we have these roles combined. The inventory reports are reviewed and signed off by the CFO resulting in what we believe would constitute a valid internal control check. However, if we cut our current inventory listing by 60%, so as to not far exceed OSC requirements, the responsibility of checking the inventory each year could be added as an additional job duty to another employee resulting in greater segregation of duties. We will be reviewing this option.

3. Since the prior audit, HSO has succeeded in preparing its GAAP report.

During our previous audit period, HSO's GAAP report submitted to OSC did not include cash balances for assets held in trust. We recommended that HSO ensure that all future GAAP reports contain all necessary information as required by OSC's GAAP instructions and use all the assistance available in complying with OSC's requirements.

The OSC's Fiscal Year 2013 GAAP Instructions for Departments state, in part,

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 to adequately disclose changes in its custodial responsibilities.

During our current audit, we determined that, as of June 30, 2013, the GAAP report submitted was complete and reported all the information required by OSC's GAAP instructions. HSO was not required to report assets held in trust as of June 30, 2013, because the balances of these assets totaled less than \$500,000.