

**Leslie Wilks Garcia, M.Jur., CPA, CFE**  
*First Assistant County Auditor*



**Glenn Holloway, CPA, CIA, CFE**  
*Chief Assistant County Auditor – Audit Division*

**Sharon Brantley Smith, MBA, CIA, CFE**  
*Chief Assistant County Auditor – Harris Health*

**MICHAEL POST, CPA, CIA**  
**HARRIS COUNTY AUDITOR**

October 4, 2024

Dear Sheriff Gonzalez:

The Harris County Auditor's Office Audit Division has completed an audit of the Sheriff's Jail Commissary. The results of our audit are included in the attached report.

We appreciate the time and attention provided by your team. Please expect an email request to complete our Post Engagement Survey. We look forward to your feedback. If you have any questions, please contact me or Glenn Holloway, Chief Assistant County Auditor, 713-274-5673.

Sincerely,

A handwritten signature in blue ink that reads "Michael Post". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Michael Post  
County Auditor

Attachment

Report Copies:

District Judges  
County Judge Lina Hidalgo  
Commissioners:  
Lesley Briones  
Rodney Ellis  
Adrian Garcia  
Tom Ramsey  
Christian Menefee



## INTERNAL AUDIT REPORT

### SHERIFF'S JAIL COMMISSARY

**19 MONTHS ENDED SEPTEMBER 30, 2023**

OCTOBER 4, 2024

## Executive Summary

### OVERALL CONCLUSION

Our audit confirmed that the commissary bank account reconciliations were performed timely and prepared accurately. In addition, the Harris County Sheriff's Office (Sheriff's Office) has a written commissary plan that has been approved by the Texas Commission on Jail Standards (Commission) as required by Texas Administrative Code Title 37, Part 9, Rule §291.3. Furthermore, Keefe Commissary Network, LLC (Contractor) complied with the performance bond and insurance coverage terms of the commissary contract agreement (Agreement). However, there are opportunities to improve internal controls related to commissary investments, recording of Contractor payments, and the administration of QuickBooks. These issues were discussed with management, and management action plans have been developed, which will address the issues identified by December 31, 2024.

### SCOPE AND OBJECTIVE

As required by Local Government Code (LGC) Section 351.0415(d), the Audit Division conducted an audit of the Sheriff's Jail Commissary. The scope of the engagement covered the period of March 1, 2022, to September 30, 2023, as the Commission permitted the Audit Division to combine the Short Fiscal Year 2022 and Fiscal Year 2023 into one engagement and report. The objectives of the engagement were to determine whether:

- Only active employees had user access rights and privileges in the commissary's financial system (QuickBooks).
- Bank reconciliations were timely and accurately prepared, and reconciling items were resolved timely.
- Disbursements complied with LGC Section 351.0415 and were properly authorized, supported, and accurately recorded in the commissary system and the County's financial records (PeopleSoft/STARS).
- Reimbursements for commissary sales were made to the Contractor in accordance with the Agreement, and reimbursements were properly authorized and accurately recorded.
- Contractor payments were made to the County in accordance with the Agreement, and payments were deposited timely and accurately recorded.
- The Contractor complied with the performance bond and insurance coverage terms of the Agreement.
- A written inmate commissary plan has been approved by the Commission.

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## SUMMARY OF AUDIT ISSUES

- There is not a formal Memorandum of Understanding for the investment of commissary funds.
- Controls over recording commissary payments need improvement.
- Controls over the administration of QuickBooks need to be fully established.

The audit issues, management's action plans to address the issues, and background information regarding this audit are discussed in more detail on the following pages. Each audit issue is ranked based on the likelihood and impact of the risk to the County.



## AUDIT ISSUES

### **ISSUE #1: There is not a Formal Memorandum of Understanding for the Investment of Commissary Funds [HIGH]**

**What is the Issue:** As of September 30, 2023, the Sheriff's Office had a total of \$23,477,053 in commissary investment funds that are overseen by the County's Office of Management and Budget Department (OMB). However, the Sheriff's Office does not currently have a formal Memorandum of Understanding (MOU) with OMB for the investment of commissary funds.

In addition, Sheriff's Office Management has not established procedures to ensure that the commissary securities' principal and interest earned from investments are returned to the commissary account when the investments mature or are sold.

**Why it Happened:** Per discussion with Management, the Sheriff's Office was unaware that a formalized MOU should be established since LGC §351.0415 does not provide specific guidance related to the investment of commissary funds.

In addition, the Sheriff's Office was unaware that monitoring procedures were required as they were relying on OMB to perform all functions related to the investment of commissary funds.

**Why it Matters:** Failure to establish a formal MOU for the investment of commissary funds leads to noncompliance with LGC §351.0415 as the funds are subject to the "exclusive control" of the Sheriff. In addition, failure to establish monitoring procedures for the investment of commissary funds could lead to financial misstatement or loss.

**What is Expected:** In accordance with LGC §351.0415, the Sheriff's Office must maintain accounts showing the proceeds and disbursements of commissary funds and the Sheriff's Office must direct expenditures for the benefit of the inmates.

Per guidance from the County Attorney's Office (CAO), the Sheriff's authority over commissary funds extends beyond the expenditure of funds and enables the Sheriff to dictate the deposit and management of the funds. Specifically, the Sheriff can direct the investment of jail commissary funds if it benefits the inmates. The CAO guidance also stated that a formal MOU should be established if the funds will be invested by someone other than the Sheriff or the Sheriff's designee to ensure that the Sheriff retains control over the management and expenditure of the funds.

**What Actions are Suggested:** Coordinate with OMB and the CAO to establish a formal MOU for the investment of jail commissary funds. In addition, establish monitoring procedures for invested commissary funds to ensure that investment principal and interest are returned to the commissary account when investments mature or are sold.

### **MANAGEMENT'S ACTION PLAN**

**Responsible Party:** Michael Lanham, Director of Finance

The Sheriff's Office is currently in discussions with OMB and the CAO to develop investment guidelines and an MOU for the governance of invested and investable jail commissary funds. Current monthly monitoring procedures consist of a review of the Monthly Investment Report produced by OMB. Additionally, reconciliation of the investment account will be implemented by HCSO accounting.

**Due Date:** December 31, 2024



## **ISSUE #2: Controls over Recording Commissary Payments Need Improvement** **[MODERATE]**

**What is the Issue:** A payment totaling \$1,017,095 to the Contractor was recorded twice within PeopleSoft/STARS. Specifically, duplicate check payments were created for one vendor invoice, but one of the checks was physically stamped with “void” on it. However, the check was not designated as voided within the Sheriff’s Office financial records, which resulted in the check being incorrectly recorded in PeopleSoft/STARS.

**Why it Happened:** Per discussion with Management, this error occurred due to a lack of communication between the Sheriff’s Office Inmate Trust financial team and the Sheriff’s Office Jail Commissary financial team.

**Why it Matters:** Failure to record a voided check within the County’s financial records results in financial misstatement.

**What is Expected:** Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, requires that financial statements be free of material errors.

**What Actions are Suggested:** Coordinate with the Auditor’s Office Accounting Division to ensure that the incorrect entry is reversed. Going forward, strengthen communication processes and monitoring controls to ensure that all voided checks are designated appropriately within the Sheriff’s Office financial records.

### **MANAGEMENT’S ACTION PLAN**

**Responsible Party:** Brendan Fullem, Financial Administrator

HCSO is communicating with the Auditor’s Office Accounting Division to ensure the duplicate payment is reversed in STARS. In addition, the Sheriff’s Office has strengthened its communication processes and monitoring controls to ensure that all voided checks are designated appropriately within the Sheriff’s Office financial records.

**Due Date:** October 31, 2024

## **ISSUE #3: Controls over the Administration of QuickBooks Need to be Fully Established** **[MODERATE]**

**What is the Issue:** Improvement is needed in the administration of the QuickBooks application. The following issues were identified:

- QuickBooks access for two former employees was not removed in a timely manner. Specifically, the employees’ access was removed six and nine months, respectively, after the terminations. In addition, the Active Directory account for one of these employees was disabled seven months after termination.
- Documentation of user access requests was not retained for three users.
- A backup System Administrator has not been assigned.



- The Sheriff’s Office formal policy for QuickBooks operations does not accurately reflect current practices and requirements. For example, there are no requirements related to the timely removal of terminated employees and monthly reviews of transaction activities.

**Why it Happened:** Internal controls for the operation and management of QuickBooks have not been fully established.

**Why it Matters:** Inadequate system internal controls increases the risk of fraud, errors, and financial misstatement.

**What is Expected:** The County’s Information Technology Access Control Policy outlines the following requirements related to systems access:

- *Section 8.3, Access Requests Audit Trail*, states that every access request must include a mechanism to track and report the following: who was granted access; who granted the access; who approved the access; and the roles and permissions assigned.
- *Section 8.6, Access Approval*, states that County Officials or their delegates are responsible for reviewing all access requests pertaining to the resources for which they are responsible; determining whether sufficient business justification exists for each user; and approving or denying each request accordingly.
- *Section 8.8, User Termination*, states that all user access privileges to County information technology resources must be disabled immediately or no later than 24 hours after a user’s termination.
- *Section 8.10, Access Review*, states that County Officials must periodically, and at least annually, verify the membership, access, and contents of the information technology resources for which they have primary responsibility to ensure that only authorized members retain correct access and permissions.

**What Actions are Suggested:** Implement preventive and detective controls to ensure compliance with the County’s Information Technology Access Control Policy, as well as other relevant standards. In addition, review the formal QuickBooks policy annually and ensure it is updated to accurately reflect current practices and requirements. Specifically, it should include, but not be limited to the following requirements:

1. User access forms should be completed and retained for all system user additions and terminations.
2. Terminated employees should be disabled from accessing QuickBooks within 24 hours after termination.
3. A backup System Administrator should be designated to ensure operational continuity in the event of staff turnover.

In addition, train all administrators and users of the QuickBooks application to ensure that the policy is effectively utilized.

## **MANAGEMENT’S ACTION PLAN**

**Responsible Party:** Brendan Fullem, Financial Administrator



The untimely removal of two former employees from the QuickBooks system was a result of staff turnover, changes in management, and a transition of assigned responsibilities. Going forward, Sheriff's Office Management will review its formal QuickBooks policy annually and ensure it is updated to accurately reflect current practices and procedures. In addition, all administrators and users will be trained to ensure that the policy is effectively followed. Furthermore, user access forms will be retained in a binder to support user access changes, and a backup system administrator will be assigned.

**Due Date:** October 31, 2024



## BACKGROUND

The Sheriff's Office operates four downtown jail locations: A) 1200 Baker Street, B) 701 San Jacinto Street, C) 1307 Baker Street, and D) 700 N. San Jacinto Street. On April 1, 2022, the Sheriff's Office entered into an agreement whereby Keefe Commissary Network, LLC (Contractor) would provide commissary services to the four jail locations.

The commissary sells food products, hygiene supplies, clothing, over-the-counter drugs, and writing materials that are not provided to inmates by the County. Contractor personnel supervise and process the inmate orders, deliver the items to the inmates, and maintain the commissary inventory. Individual inmate trust accounts (trust accounts) are established with funds in the inmates' possession at the beginning of incarceration and credited with deposits made thereafter. Inmates may place orders for commissary items, subject to available funds in their trust accounts. Commissary purchases are deducted from the trust accounts.

### **Attorney General Opinion**

On December 22, 2011, the Attorney General of Texas issued Opinion No. GA-0901. The summary information states, "A county sheriff controls the county jail commissary fund, and as a result, the sheriff must make the initial determination, subject to judicial review, as to whether proceeds from the fund may be used for particular purposes. The proceeds may be used only to fulfill one of the five purposes described in section 351.0415(c) of the Local Government Code."

The five purposes are as follows:

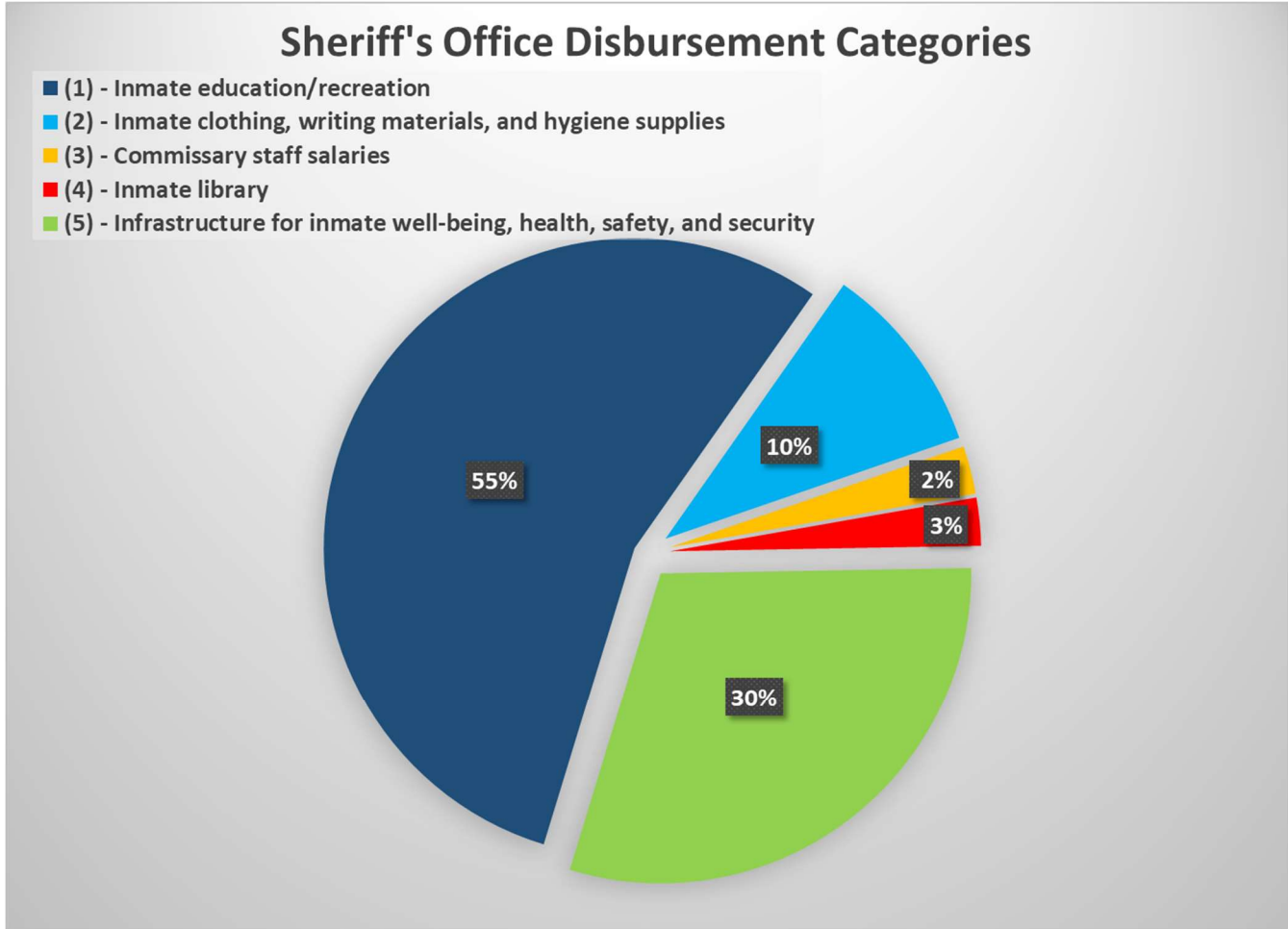
1. Fund, staff, and equip a program addressing the social needs of the inmates, including an educational or recreational program and religious or rehabilitative counseling;
2. Supply inmates with clothing, writing materials, and hygiene supplies;
3. Establish, staff, and equip the commissary operation and fund the salaries of staff responsible for managing the inmates' commissary accounts;
4. Fund, staff, and equip both an educational and a law library for the educational use of the inmates;
5. Fund physical plant improvements, technology, equipment, programs, services, and activities that provide for the well-being, health, safety, and security of the inmates and the facility.





**Sheriff's Jail Commissary Disbursements**

The Sheriff's Office disbursed approximately \$9.8 million from the commissary fund for the 19 months ended September 30, 2023. A sample of 40 disbursements totaling approximately \$433,000 were selected to determine compliance with LGC Section 351.0415(c). All were deemed allowable expenditures and were disbursed by the following categories:



**ACCOUNTABILITY**

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards). The Standards require that we comply with the Code of Ethics and obtain reasonable assurance that significant risks to the activity are minimized to an acceptable level.

As the engagement's scope did not include a detailed examination of all transactions, there is a risk that fraud, errors, or omissions were not detected during this engagement. The official, therefore, retains the responsibility for the accuracy and completeness of their financial records and for ensuring sufficient controls are in place to detect and prevent fraud, errors, or omissions.

