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**MICHAEL POST, C.P.A., M.B.A.**  
**HARRIS COUNTY AUDITOR**

March 28, 2022

Dear Sheriff Gonzalez:

The Harris County Auditor's Office Audit Division has completed an audit of Inmate Trust Banking. The results of our audit are included in the attached report.

We appreciate the time and attention provided by you and your staff during this engagement. Please anticipate an email request to complete the Audit Division's Post Engagement Survey. We look forward to your feedback. If you have any questions, please contact me or Errika Perkins, Chief Assistant County Auditor, 713-274-5673.

Sincerely,

A handwritten signature in blue ink that reads "Michael Post".

Michael Post  
County Auditor

Report Copies:

District Judges  
County Judge Lina Hidalgo  
Commissioners:  
R. Jack Cagle  
Rodney Ellis  
Adrian Garcia  
Tom Ramsey  
Christian Menefee

AUDIT REPORT  
**INMATE TRUST BANKING**  
MARCH 28, 2022

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## Executive Summary

### OVERALL CONCLUSION

The Inmate Trust Banking Audit verified that a sample of debit card and other inmate fund withdrawals were accurate and properly supported. However, opportunities for improvement were identified regarding segregation of duties, key reconciliations, and escheatment of former inmate funds. These issues were discussed with the Sheriff's Office and a management action plan has been developed which will address these issues by October 31, 2022.

### SCOPE AND OBJECTIVE

Internal Audit conducted an audit of the controls over the Sheriff's Office Inmate Trust Banking for the period of March 1<sup>st</sup> through August 31<sup>st</sup>, 2021. The objectives of this audit were to determine if:

- Inmate funds were accurately and timely loaded to debit cards or a check was issued upon their release from jail or transfer to other penitentiaries.
- Inmate fund withdrawal transactions were properly authorized, monitored, and accurately recorded in Aramark's commissary platform, Core Banking (Core).
- Bank reconciliations for the inmate trust bank accounts complied with Accounting Procedure C.8, *Custodial (Agency) Bank Accounts*.
- Core inmate balances reconcile to the Cadence inmate trust fund bank account (Cadence).
- Inmate trust bank activity was accurately and timely posted in Core and PeopleSoft.
- Core inmate accounts were registered in the Offender Management System (OMS) that is used to track inmates.
- Management's monitoring procedures to detect potential unauthorized transactions in Core were adequate.
- Prior management action plans from the previous "Sheriff's Office Inmate Trust Banking" engagements were implemented.

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### SUMMARY OF AUDIT ISSUES

- Inadequate segregation of duties exists with the Sheriff's Office Accounts Payable (AP) and inmate account activity in the Core system.
- Sheriff's Office Management is not performing key reconciliations for the Core system.
- Sheriff's Office Management is not complying with escheatment statutes governing unclaimed property of former inmate funds.

The audit issues, management's action plan 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 Harris County.

## AUDIT ISSUES

### **ISSUE #1: Inadequate Segregation of Duties [HIGH]**

**What is the Issue:** Inadequate segregation of duties exists within the Core system, which tracks inmate fund transactions. As a result, 12 users within the:

- Sheriff's Office AP function in Core had unrestricted access to create a vendor, post invoices for payment, and process disbursements.
- Inmate account disbursement module had unrestricted access to create a new inmate account, adjust inmate account balances, re-activate inactive inmate accounts, and print checks or load debit cards with funds from inmate accounts.

In addition, a reconciliation for the daily activity in Core is performed by the Administrative Coordinator, who is also responsible for collecting inmate funds and adjusting inmate account balances.

**Why it Happened:** The high volume of inmate fund activity and the size of the department has impaired management's ability to properly segregate key duties and responsibilities.

**Why it Matters:** Not properly segregating duties impairs the ability to prevent and detect fraud and could result in errors and misappropriation of inmate trust funds.

**What is Expected:** The County's Internal Controls Manual states that no one person should initiate, record, approve, reconcile, handle the asset, and review the reports for any given transaction.

**What Action(s) are Suggested:** Sheriff's Office Management should implement controls that would provide proper segregation of duties in the Core system. If current staffing does not allow for this, then management should implement compensating monitoring controls that help mitigate the risks.

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

**Responsible Party:** Tom Katz, Inmate Trust Fund Manager

The Sheriff's Office is changing Commissary vendors on April 1, 2022 when this transition happens we will perform testing to limit Segregation of Duties violations in the new system. Due to staffing limitations at the inmate bank, not all duties can be segregated. However, we will implement mitigating controls to strengthen internal controls where Segregation of Duties is unachievable.

**Due Date:** June 1, 2022

## **ISSUE #2: Key Reconciliations are not Performed [HIGH]**

**What is the Issue:** Sheriff's Office Management is not performing key reconciliations of the Core system. The following was noted:

- Inmate account balances recorded in Core are not reconciled to the corresponding balance at Cadence bank for accuracy.
- Inmates recorded in Core are not reconciled to OMS for completeness.

**Why it Happened:** Sheriff's Office Management has not established reconciliation procedures.

**Why it Matters:** Not performing reconciliations between Core, Cadence, and OMS has resulted in approximately \$800K recorded in Cadence but not in Core and 17K inmates recorded in Core but not identified in OMS. Furthermore, not performing reconciliations impairs management's ability to detect fraud or errors.

**What is Expected:** The Government Finance Officers Association recommends that appropriate reconciliations are performed by a government to identify errors and adjustments.

**What Action(s) are Suggested:** Sheriff's Office Management should establish monthly reconciliation procedures for Core inmate balances to Cadence bank and inmates recorded in Core to OMS. This procedure should be performed by someone who does not have the ability to process cash receipts or disbursements for the Inmate Trust account and someone who does not have access to create or adjust inmate accounts.

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

**Responsible Party:** Tom Katz, Inmate Trust Fund Manager

The Sheriff's Office is changing Commissary vendors on April 1<sup>st</sup> 2022, when this transition happens we will implement an additional reconciliation on top of the bank reconciliation that's currently being done.

**Due Date:** June 1, 2022

### **ISSUE #3: Inmate Funds are not Property Escheated [MODERATE]**

**What is the Issue:** Sheriff's Office Management is not complying with escheatment statutes governing unclaimed property for former inmate funds. See the chart below:

<b>Inmate Trust Funds (Older than 3 years)</b>	<b>Subtotal (Under \$100)</b>	<b>Subtotal (Over \$100)</b>	<b>Total \$</b>
Unclaimed Former Inmate Balances	\$155,856	\$70,033	\$225,890
Outstanding Checks	\$7,910	\$609	\$8,518
<b>Unreported to Harris County Treasurer</b>	<b>\$163,766</b>		
<b>Unreported to Texas Comptroller</b>		<b>\$70,642</b>	
<b>Total Unreported Properties as of August 2021</b>			<b>\$234,408</b>

**Why it Happened:** Sheriff's Office Management has not implemented a monitoring procedure to ensure all unclaimed property is escheated in accordance with state law.

**Why it Matters:** Not reporting unclaimed property to the County's Treasurer's Office or to the State results in non-compliance with the Texas Property Code and could lead to misappropriation of inmate trust funds.

**What is Expected:** The Texas Property Code Title 6 - *Unclaimed Property*, states that unclaimed property greater than \$100 is to be escheated to the State after three years. In addition, unclaimed property valued at \$100 or less shall be delivered to the County Treasurer's Office by the holder after three years.

**What Action(s) are Suggested:** Sheriff's Office Management should immediately process unclaimed property in accordance with state law. In addition, management should implement monitoring procedures to ensure all unclaimed property is escheated timely.

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

**Responsible Party:** Shaun Jernigan, Financial Administrator

The Sheriff's Office has been remitting Outstanding Checks to the Treasurer's Office and to the State according to state law. The two checks over \$100 were not submitted because both inmates died and we were working with the County Attorney's to provide the checks to their next of kin. 1,427 of the 1,825 checks you have listed under \$100 were in fact remitted as unclaimed property. We will work with the Treasures Office and our Inmate Bank to see why these did not clear.

We have updated our procedures to ensure \$100 checks are sent to the Treasurer's Office instead of the State going forward. The remaining checks under \$100 that you have listed were not included in our unclaimed property run because our practice included using the County's year end as cut off, we have since updated our policy to use 6/30 as the cutoff.

Unclaimed property relating to inactive inmates was not included in our prior practice, as we ran unclaimed property off outstanding checks. Inactive inmates relate to individuals that have been transferred, released, or received refunds after their departure. Since no checks were issued, they didn't get captured in our current procedures. We will include inactive inmates in our next unclaimed property run which is scheduled to start in April and conclude in October.

**Due Date:** October 31, 2022

## BACKGROUND

Inmate trust banking is a service provided in partnership between Harris County and Aramark Food Services utilizing Core. Once an individual is booked into the Harris County Jail System and registered into OMS, an account is created in Core. Inmates, families, and friends make deposits on Inmates' Core accounts and inmates can use their account funds to purchase products and services provided by Aramark at their vending machines and stores located at Harris County correctional facilities, as well as to make transfers to third parties, pay for legal fees and for personal bonds.

## 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.

The work performed required our staff to exercise professional judgment in completing the engagement's scope. 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.