

Leslie Wilks Garcia, C.P.A., M.Jur.
First Assistant County Auditor

Errika Perkins, C.P.A., C.I.A.
Chief Assistant County Auditor
Audit Division



1001 Preston, Suite 800
Houston, Texas 77002-1817
(832) 927-4600

Fax (713) 755-8932
Help Line (832) 927-4558

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

July 2, 2021

Dear Sheriff Gonzalez:

The Audit Division has completed an audit of the Sheriff's Jail Commissary for the 12 months ended February 29, 2020. 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". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Michael Post
County Auditor

Report Copies:

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

AUDIT REPORT
SHERIFF'S JAIL COMMISSARY FISCAL YEAR 2020
JULY 2, 2021

Executive Summary

OVERALL CONCLUSION

The Sheriff's Jail Commissary (Commissary) Audit ascertained that sales were accurately recorded in the Commissary System and appropriately deducted from the respective inmates' trust accounts. In addition, disbursements were in compliance with Local Government Code (LGC) Section 351.0415. Furthermore, Aramark Correctional Services, LLC (Contractor) complied with the performance bond and insurance coverage terms of the Commissary Agreement (Agreement). Finally, only active employees had user access rights and privileges in the Commissary financial system (QuickBooks), and bank reconciliations were timely and accurately prepared. However, controls related to commission payments and payroll reimbursements owed to the Sheriff's Office need improvement.

SCOPE AND OBJECTIVE

Audit Services conducted an audit of the Harris County Sheriff's Office to test controls over the Commissary. The objectives of this engagement were to:

- Determine whether only active employees have user access rights and privileges in QuickBooks.
- Determine whether bank reconciliations are timely and accurately prepared, and reconciling items are timely resolved (on a sample basis).
- Selectively test to determine whether disbursements were in compliance with LGC Section 351.0415 and were properly authorized, supported, and accurately recorded in the Commissary System and the County's financial records.
- Selectively test to determine whether sales were accurately recorded in the Commissary System and appropriately deducted from the respective inmates' trust accounts.
- Determine whether Contractor payments were in accordance with the Agreement, and were properly received, recorded, and deposited timely by the County.
- Determine whether the Contractor complied with the performance bond and insurance coverage terms of the Agreement.

The audit period for the procedures performed was for the 12 months ended February 29, 2020.

SUMMARY OF AUDIT ISSUES

- Controls Over Tracking and Monitoring Commissions Owed to the Sheriff's Office Need Improvement.
- Controls Over Tracking and Monitoring Payroll Reimbursements Owed to the Sheriff's Office Need Improvement.

The audit issues, management's action plans to address the issues, and background information are discussed in more detail on the following pages.

Harris County Auditor's Office audit reports are available at <http://auditor.harriscountytexas.gov>

AUDIT ISSUES

ISSUE #1: Controls Over Tracking and Monitoring Commissions Owed to the Sheriff's Office Need Improvement

What is the Issue: The Sheriff's Office does not adequately monitor or track commission payments owed. Specifically, the following items were noted:

- 1) The Sheriff's Office does not invoice the Contractor for commissions due.
- 2) Commission tracking worksheets and/or schedules maintained by the Sheriff's Office are not updated in an accurate and timely manner.
- 3) Commission checks are not deposited in a timely manner.

It should be noted that this issue was also identified in the FY2019 Sheriff Jail Commissary Engagement.

Why it Happened: Sheriff's Office Management does not have sufficient procedures in place for adequately monitoring and tracking Commissary commission payments owed. In addition, duties are not adequately segregated as commission payment tracking, receiving, and depositing is performed by one person.

Why it Matters: As of the end of FY 2020, an analysis performed by Audit Services determined that \$345,642 of past due commissions were owed to the Sheriff's Office and had not been received. The commissions owed consist of a roll forward balance that can be traced back to the first year of the Agreement between the Contractor and the County, March 1, 2016.

In the event that the Contractor becomes insolvent, the County would be required to call the Contractor's performance bond in order to obtain the outstanding commissions owed.

What is Expected: Pursuant to section 6.G, *Guarantee*, of the Agreement, the Contractor will guarantee to pay the Sheriff's Office a minimum annual commission of \$4,000,000. The Contractor shall pay semi-annually in installments of \$2,000,000 each. The first payment is required to be made on March 1st and the second payment is required to be made on August 1st of each year.

Additionally, pursuant to section 6.F, *Financial Arrangements*, of the Agreement, the Contractor shall pay a commission in an amount equal to fifty-six percent (56%) of net sales. The guaranteed payments (section 6.G above) serve as pre-payments of the 56% of net sales owed for the year. Commissions calculated and submitted monthly are used to offset the two \$2,000,000 payments until this pre-paid balance reaches zero, after which, additional commissions checks are owed.

Pursuant to County Accounting Procedure A.1, *Cash Handling Guidelines*, employees who accept payments should not be the same employees who balance receipts or deposit the revenue collected.

Pursuant to LGC 113.022 (a), *Time for Making Deposits*, a county officer or other person who receives money shall deposit the money on or before the next regular business day after the date on which the money is received. If this deadline cannot be met, the officer or person must deposit the money, without exception, on or before the fifth business day after the day on which the money is received.

AUDIT ISSUES

What Action(s) are Suggested: The Sheriff's Office should request that the Contractor pay the \$345,642 balance owed. In addition, the Sheriff's Office should reconcile payments received from the Contractor to the Sales and Commissions reports provided by the Contractor as of the current date.

Furthermore, consideration should be given to transferring the function of billing and tracking receivables to the Auditor's Office Accounts Receivable Department (Accounts Receivable). The function transfer would help to ensure invoices are submitted to the Contractor, duties are adequately segregated, owed commissions are accurately tracked, and commission reports are adequately reviewed.

If Management does not elect to transfer this process to Accounts Receivable, consideration should be given to providing staff with additional training and resources to ensure that the monitoring and tracking of Commissary commissions is performed in an accurate manner. A collections function should be established to invoice the Contractor for all revenue owed to the Sheriff's Office.

Finally, Management should require the Contractor to provide payments to Harris County via direct deposit. This would help to ensure commission payments are deposited timely, and it would further segregate duties.

MANAGEMENT'S ACTION PLAN

Responsible Party: Shaun Jernagin

We are working through the reconciliation process to identify any commissions owed to the Commissary. Once completed we will work with Aramark to reissue the checks accordingly. We've sent the direct deposit forms to the Auditor's Office to confirm details and our eligibility to enroll in electronic payments. After reconciliation, payment of outstanding commissions and enrollment in electronic payments we will work with the Auditor's Office on handing over the tracking of Accounts Receivable. If we are not able to hand over the tracking function we will implement the process on our side.

Due Date: 7/31/2021

AUDIT ISSUES

ISSUE #2: Controls Over Tracking and Monitoring Payroll Reimbursements Owed to the Sheriff's Office Need Improvement

What is the Issue: The Sheriff's Office does not adequately track and monitor payroll reimbursement payments owed. Specifically, the following items were noted:

- 1) Testing of twelve (12) payroll reimbursements to the Contractor identified the July 2019 and the August 2019 payments totaling \$25,600 were not received and deposited by the Sheriff's Office. It should be noted that the Contractor reissued these 2 payroll reimbursement checks on April 27, 2021, in order to clear the outstanding receivable balance. These reissued checks were deposited on May 14, 2021.
- 2) The remaining ten (10) payroll reimbursement checks totaling \$140,800 were not deposited within 5 business days as required by LGC §113.022.
- 3) The same employee receives and deposits payroll reimbursement payments which results in noncompliance with County Accounting Procedure A.1, *Cash Handling Guidelines*.

Why it Happened: Sheriff's Office Management does not have sufficient procedures in place for adequately monitoring and tracking payroll reimbursements owed.

Why it Matters: Failure to adequately track and monitor payroll reimbursement payments can result in financial loss to the County, financial misstatement, and accounts receivable tracking errors.

What is Expected: The contractual agreement between the Sheriff's Office and the Contractor contains a provision whereby the Contractor may request the use of detention officers for the supervision of inmate labor. Section 2.1 of the agreement specifies that the Sheriff's Office be reimbursed by the Contractor for the use of detention officers at an hourly rate of \$32. Payments are to be made monthly.

In accordance with Local Government Code §113.022, a county officer or other person who receives money shall deposit the money on or before the next regular business day after the date on which the money is received. If this deadline cannot be met, the officer or person must deposit the money, without exception, on or before the fifth business day after the day on which the money is received.

Pursuant to County Accounting Procedure A.1, *Cash Handling Guidelines*, employees who accept payments should not be the same employees who balance receipts or deposit the revenue collected.

What Action(s) are Suggested: Sheriff's Office Management should monitor the PeopleSoft Accounts Receivable Collections Workbench to track the owed and received payroll reimbursement payments. The Collections Workbench should be reviewed monthly to ensure that anticipated payments are received and deposited. If a discrepancy is identified, it should be communicated to Accounts Receivable.

Lastly, Management should request that the Contractor provide payroll reimbursement payments via direct deposit to ensure that all payments are delivered and deposited in a secure and timely manner, and to further segregate duties.

AUDIT ISSUES

MANAGEMENT'S ACTION PLAN

Responsible Party: Shaun Jernagin

We will start monitoring the Accounts Receivable Workbench monthly to track payroll reimbursements. We are also moving to electronic transfers for all payments from Aramark, this will strengthen internal controls, limit discrepancies and improve compliance with our Cash Handling Guidelines.

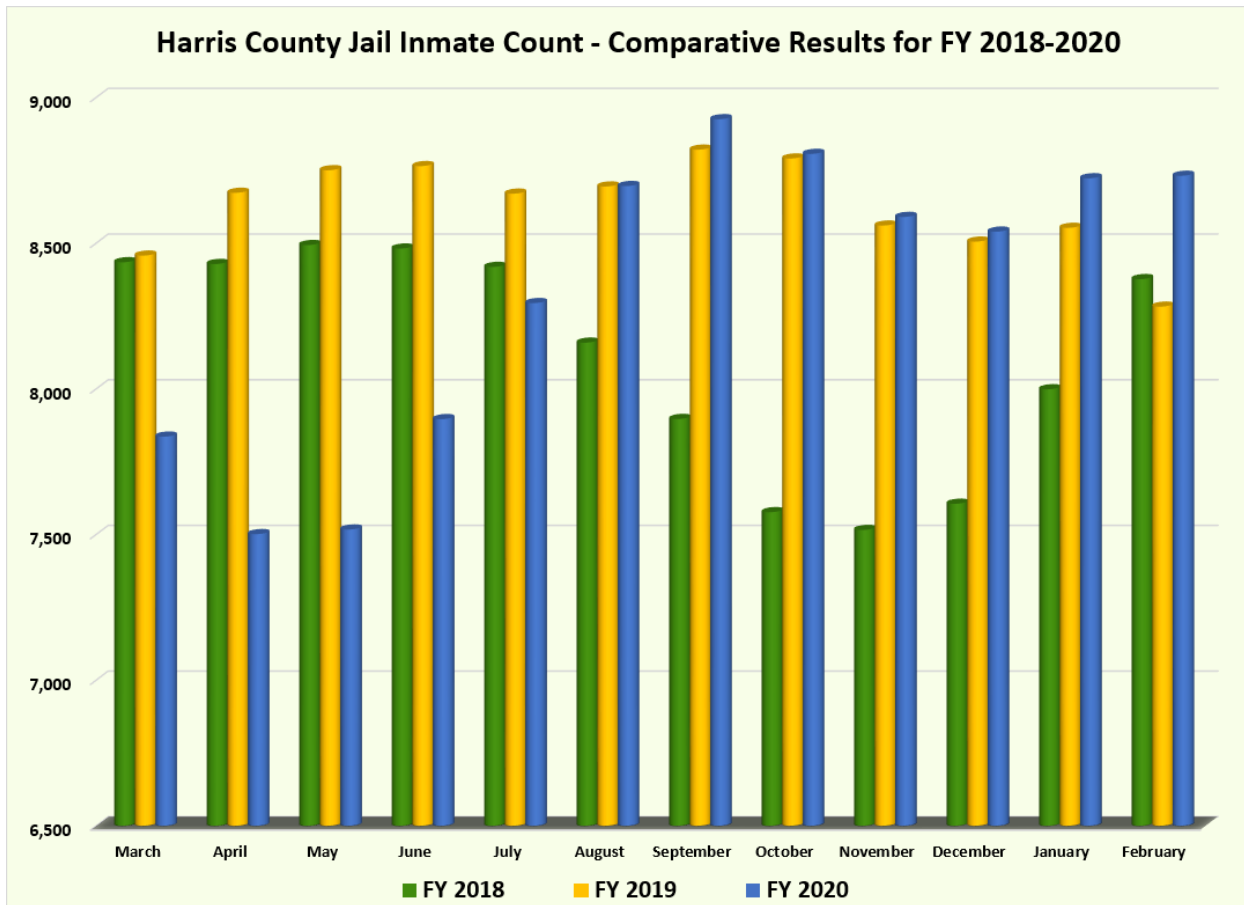
Due Date: 7/31/2021

BACKGROUND

The Harris County Sheriff's Office operates the following three downtown jail locations: A) 1200 Baker Street, B) 701 San Jacinto Street, and C) 1307 Baker Street. On March 1, 2016, the Sheriff's Office entered into a 1 year Agreement whereby the Contractor would provide Commissary services for the 3 jail locations. Pursuant to the Agreement, the Sheriff's Office earns a commission in an amount equal to 56% of net Commissary sales, and is guaranteed a minimum commission amount of \$4,000,000 per year. Subsequent to March 1, 2016, the Agreement was renewed at the County's option for additional 1-year periods with the same terms and conditions.

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 provided by the inmates or others 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.

The chart below presents comparative results of the Sheriff Jail Inmate Count population served by the Commissary operations for the fiscal years ended February 2018, 2019, and 2020.



(Source: Harris County Sheriff's Office Daily Jail Count by Facility)

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; and (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.

ACCOUNTABILITY

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.