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

April 21, 2023

Dear Sheriff Ed Gonzalez:

The Harris County Auditor's Office Audit Division has completed an audit of the Inmate Trust Banking Controls. 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 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:

Lesley Briones
Rodney Ellis
Adrian Garcia
Tom Ramsey
Christian Menefee



INTERNAL AUDIT REPORT

INMATE TRUST BANKING CONTROLS

APRIL 21, 2023

Executive Summary

OVERALL CONCLUSION

The overall controls related to the Inmate Trust Banking processes were found to be ineffective. Opportunities for improvement were identified for improving user access controls in the Keefe Inmate Trust Management System (Edge), performing key reconciliations, and issuing funds to former inmates. The issues were discussed with Harris County Sheriff's Office (Sheriff's Office) Management, and management action plans have been developed, which will address the issues identified by July 31, 2023.

SCOPE AND OBJECTIVE

The audit procedures tested internal controls over the Sheriff's Office Inmate Trust Banking processes for the period of April 1, 2022, to September 30, 2022. The objectives of this engagement were to determine whether:

- Inmate Trust Fund balances were accurately and timely provided to inmates or a receiving correctional facility upon an inmate's release or transfer, respectively;
- Inmate Trust Fund withdrawals were properly authorized, monitored, and accurately recorded in Edge;
- Inmate accounts in Edge agreed with accounts in the Offender Management System (OMS);
- Edge user roles were authorized, monitored, and appropriate;
- Inmate Trust Fund bank account reconciliations complied with Accounting Procedure C.8, Custodial (Agency) Bank Accounts;
- Inmate Trust Fund activity was accurately and timely recorded in the County's Financial System (PeopleSoft); and
- Inmate Trust Fund internal procedures accurately reflect current processes.

SUMMARY OF AUDIT ISSUES

- Inadequate user access controls exist within the Edge system.
- Sheriff's Office Management is not performing key reconciliations for the Edge system.
- Funds owed to former inmates have not been returned.
- Bank Account Monthly Summary Reports (Form 324C) were not completed timely.

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 Harris County Sheriff's Office.

AUDIT ISSUES

ISSUE #1: Insufficient User Access Controls [HIGH]

What is the Issue: User access controls for the Edge system need improvement to address the following issues:

- Eighteen Sheriff's Office employees (e.g. clerks, analysts, accountants, etc.) have system administrative privileges. This access creates segregation of duties conflicts and provides unrestricted access to perform functions such as: creating new inmate accounts, adjusting inmate account balances, re-activating inactive inmate accounts, and printing checks or loading debit cards with funds from inmate accounts.
- Current user access reviews do not assess roles and permissions for appropriateness.
- Documentation of formal requests and approvals for user access to Edge is not retained.
- Edge does not have a report query that provides a listing of all system users and their associated roles and permissions.

Why it Happened: The Sheriff's Office did not establish user access controls during the Edge system implementation in April 2022. In addition, periodic monitoring of Edge access has not been performed to verify that users are granted access according to the principle of least privilege.

Why it Matters: The lack of user access and segregation of duties controls increases the risk of fraud, errors, and misappropriation of funds.

What is Expected: The Harris County Information Security Access Policy outlines the following requirements related to systems access:

- *C.1.1 Authorized User Access Rights* states that following the principle of least privilege, individuals must only be granted access to the systems, applications and data required to perform their respective job functions.
- *C.1.3 Access Requests Audit Trail* states that every access request process must include an audit trail mechanism to track and report (1) who was granted access, (2) who granted the access, (3) who approved the access, and (4) to which system(s) and/or application(s) was the access allowed. The department requesting access and the department provisioning access must be able to produce this evidence.
- *C.1.11 Access Certification* states that Business Owners must verify the membership, access and contents of the systems, applications and/or resources for which they have primary responsibility on a regular basis (at least once per year), to ensure that only authorized members maintain access to and permissions for the systems, applications and/or resources involved.
- *E.1.7 Privileged Account Maintenance* states that privileged account owners must verify the membership, access and contents of the resources for which they are responsible frequently (at minimum quarterly), to ensure that only authorized members maintain access and permissions.

What Action(s) are Suggested: Sheriff's Office Management should review the access and privileges of all Edge users. Access should be assigned based upon job duties, the principal of least privilege, and proper segregation of duties. The assignment of high privilege access should be minimized to reduce security and fraud risk. Going forward, Management should implement preventative and detective controls for maintaining access that adheres to the County's policies and expectations to ensure access is appropriately provisioned, deprovisioned, authorized, documented, and monitored. In addition, Management should require that Keefe develop a report query that provides a listing of all system users and their associated roles and permissions.



MANAGEMENT'S ACTION PLAN

Responsible Party: Shaun Jernagin

In 2022, we transitioned from Aramark to Keefe and were not aware of system limitations until after we went live. We will implement a process to review access and system privileges to ensure the process of least privilege is followed in accordance with County policy.

Due Date: June 30, 2023

ISSUE #2: Key Reconciliations Were Not Performed [HIGH] REPEAT ISSUE

What is the Issue: Sheriff's Office Management has not performed key reconciliations of the Edge system. The following were noted:

- Inmate account balances recorded in Edge are not reconciled to the corresponding Inmate Trust Fund bank account balance in Cadence Bank (Cadence).
- Inmates recorded in the Edge are not reconciled to inmates recorded in the Offender Management System (OMS) system to ensure accuracy and completeness.

Why it Happened: Per Sheriff's Office Management, reconciliation procedures have not been established to verify that inmates and account balances in Edge are accurate.

Why it Matters: Not performing adequate reconciliations between Edge, Cadence, and OMS has resulted in approximately \$1.3 million in inmate account balances recorded in Cadence but not reflected in Edge and 3,916 inmates recorded in Edge but not identified in OMS. Furthermore, not performing reconciliations impairs management's ability to detect fraud and 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 Edge inmate balances to Cadence and inmates recorded in Edge 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: Shaun Jernagin

We are aware that key reconciliations need to be performed and are working to implement a process where this will be completed. During the transition from Aramark to Keefe, we identified system limitations and have been unable to implement this process thus far. We believe that we are now at the point where we can review this deficiency and implement a process to reconcile Edge, Cadence and OMS.

Due Date: June 30, 2023



ISSUE #3: Account Balances for Released Inmates Not Returned [HIGH]

What is the Issue: The Sheriff's Office has \$1,001,547 in funds that have not been issued to inmates upon their release or transfer. This total balance was composed of 59,104 individual inmate account balances.

Why it Happened: The Sheriff's Office has not developed procedures for returning inmate funds subsequent to an inmate's release or transfer. Furthermore, the current Sheriff's Office Inmate Trust Fund Policy does not include processes related to the disbursement of inmate funds.

Why it Matters: Failure to monitor and return inmate funds increases the risk of fraud or misappropriation of funds.

What is Expected: Pursuant to Texas Government Code 501.015, *Providing Discharged or Released Inmate with Clothing and Money*, "When an inmate is discharged or is released on parole, mandatory supervision, or conditional pardon, the department shall provide the inmate with money held in the inmate's trust account."

What Action(s) are Suggested: The Sheriff's Office should review the unclaimed inmate balances and return appropriate funds to the former inmates as required by statute. If the funds cannot be returned, then the funds should be reviewed for escheatment eligibility in accordance with Texas Property Code Title 6, *Unclaimed Property*.

Additionally, the Sheriff's Office should develop written procedures for the monitoring, review, and issuance of funds that are held subsequent to an inmate's release. These procedures should be included in the current Inmate Trust Fund Policy.

MANAGEMENT'S ACTION PLAN

Responsible Party: Marilyn Rose

During the escheatment process, we were unaware that inactive inmates existed for purposes of unclaimed property. We have since started the escheatment process for inactive inmates out of CORE and are manually reconciling with Keefe. We have also updated our Standard Operating Procedures to include inactive inmates with our normal annual escheatment.

Due Date: July 31, 2023

ISSUE #4: Bank Account Monthly Reconciliations Not Completed Timely

[MODERATE]

What is the Issue: Bank account monthly reconciliations submitted on County Auditor Form 324C, *Bank Account Monthly Summary*, were not completed timely for the Inmate Trust Fund bank account. Specifically, we noted that bank account reconciliations for May 2022 and August 2022 were submitted three months and one month late, respectively.

In addition, 24 checks totaling \$6,591 were escheated to the state of Texas in June 2021 but not removed from the outstanding checks listed on the monthly bank reconciliation.



Why it Happened: The Sheriff's Office does not have adequate monitoring controls to ensure that the monthly Form 324C is completed timely and that checks are removed from the monthly bank reconciliation outstanding checks list.

Why it Matters: Failure to complete and submit Form 324C in a timely manner can result in delayed recording of financial information or financial misstatement. Form 324C contains vital monthly financial information such as receipts, disbursements, and other account adjustments that are required by the Auditor's Office Financial Accounting Department to make monthly journal entries. Additionally, failure to remove escheated checks from the outstanding checks list results in inaccurate account balances.

What is Expected: County Accounting Procedure C.8, *Custodial (Agency) Bank Accounts*, requires the Sheriff's Office to prepare a monthly Form 324C, *Bank Account Monthly Summary Report*, or other County Auditor-authorized report of account activity (i.e., all disbursements, deposits, and adjustments to the account). In addition, it requires the information be sent to the Auditor's Office - Financial Accounting Department by the 5th calendar day of the month following month's end.

What Action(s) are Suggested: Management should enhance monitoring controls to ensure Form 324C is completed in the required timeframe and to ensure escheated checks are removed from the monthly reconciliation outstanding checks list in accordance with County policy. In addition, the 24 escheated outstanding checks should be removed from the outstanding checks list.

MANAGEMENT'S ACTION PLAN

Responsible Party: Laura Wilson

In 2022, we transitioned from Aramark to Keefe and were not aware of system limitations until after we went live. The report that we needed to submit the 324Cs on time was not available. We worked with Keefe's IT department to get the report created and once it was, we submitted the 324Cs in accordance with County policy. We will also ensure the 24 aforementioned escheated checks are removed from the outstanding checks list.

Due Date: April 30, 2023

BACKGROUND

The Inmate Trust Fund, authorized by Texas Government Code (TGC) § 501.014, *Inmate Money*, provides for the safekeeping of an inmate's funds during their confinement.

The Harris County Sheriff's Office has partnered with Keefe Commissary Network, LLC to provide inmate trust fund banking and commissary services. When an inmate is booked in the Harris County Jail System and registered in the Offender Management System, an inmate account is created in the Keefe Inmate Trust Management System, Edge. Inmates, family members, and friends can make deposits into Edge accounts, which can be used to purchase commissary products, make transfers to third parties, and pay for legal fees or personal bonds.

Pursuant to TGC 501.015, *Providing Discharged or Released Inmate with Clothing and Money*, "When an inmate is discharged or is released on parole, mandatory supervision, or conditional pardon, the department shall provide the inmate with money held in the inmate's trust account."



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 engagement's scope did not include a detailed inspection of all transactions. There is a risk that fraud or errors were not detected during this engagement. Therefore, the official 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.

