

## MEMORANDUM

**TO:** Mary Ann Borgeson, Chair, Douglas County Commissioner  
Clare Duda, Vice-Chair, Douglas County Commissioner  
Mike Boyle, Douglas County commissioner  
Marc Kraft, Douglas County commissioner  
PJ Morgan, Douglas County Commissioner  
Chris Rodgers, Douglas County Commissioner  
Pam Tusa, Douglas County Commissioner

**CC:** Thomas Cavanaugh, Douglas County Clerk/Comptroller  
T. Paul Tomoser, Audit Committee Chair  
Jack Armitage  
Ron Bucher  
Joni J. Davis  
Kathleen Kelley, Chief Administrative Officer  
Jeff Newton, Director of Corrections  
Fred Weber

**FROM:** Mike Dwornicki, Internal Audit Director

**DATE:** March 9, 2011

**SUBJECT:** Douglas County Department of Corrections, Inmate Fund Cash Handling

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I have completed a performance audit of the cash handling procedures of the Inmate Fund of the Douglas County Department of Corrections. This audit was conducted to provide a quick response to a focused, singular issue - the adequacy of the design of the cash handling controls over the Inmate Fund. The procedures in place were adequately designed except for the segregation of duties over disbursements. The details related to the finding appear below.

### **Background**

County Commissioner Boyle contacted Internal Audit the first week of February 2010 and indicated that he was concerned about the material weakness and the significant deficiency in the Hayes and Associates financial audit of the Inmate Fund of the Douglas County Department of Corrections. Internal Audit had been involved in previous discussions with the Corrections accounting staff on their procedures designed to address the material weakness and the significant deficiency. It is the Auditor's opinion that the procedures established to address the audit issues were adequately designed.

Commissioner Boyle had also asked about whether transferring control over the account to the County Treasurer was advisable. Commissioner Borgeson asked if perhaps additional cash controls might be needed if the inmate monies were kept under the control of Corrections. In response to the Commissioners' concern, additional analysis of the internal controls over the cash handling processes was conducted to determine if the controls were adequately designed. The opinion rendered is in regard only to the design of the cash controls. There was no testing of individual transactions related to the procedures to determine their effectiveness. This report does not address the transfer of the fund over to the County Treasurer. The implications of moving control of the account to the County Treasurer need further analysis and are beyond the scope of this audit.

### **Objective**

The objective of the audit was to determine if the internal controls over the cash receipts and disbursement processes were designed to provide reasonable assurance that unauthorized use of cash would be prevented and there would be timely detection if misuse did occur.

### **Scope**

The audit covered the cash handling procedures in place as of February 11, 2011.

### **Methodology**

The evidence gathering and analysis techniques used in order to meet the audit objectives included, but were not limited to:

- Examination of written policies and procedures.
- Interviews of Corrections management and cash handling personnel.
- Review of daily balancing and monthly bank reconciliation examples.

### **Findings**

Criteria: Duties should be adequately segregated so that one person does not have custody of assets and be responsible for recording the transactions related to the same assets. There should also be procedures in place to detect any unauthorized use of assets in a timely fashion.

Condition: The duties over the cash disbursement process were not adequately segregated. The following issues were noted:

- A payee must exist as an inmate or as a record in the payee table in order to be input in the payee field on the check writing module. Persons who prepare the disbursements and print checks have the ability to input and change data in the payee table.
- The system currently does not generate a report of new payees or changes to payees to determine if additions and changes were properly authorized and input correctly.
- Persons who prepare disbursements out of the Inmate Fund also sign the checks. Policy requires a second check signature. The bank, however, will honor a check that has only one signature.

Effect: The disbursement procedures in place provide persons with access to the check writing module the ability to control all aspects of a cash transaction which includes creation of the payee, check preparation and check signing. Combining these duties provides the ability to convert funds for personal use and possibly avoid timely detection.

Cause: The design of the new inmate accounting system did not provide for separation of check preparation and payee master file input functions. Additionally, the disbursement process procedures did not provide for separation of check preparation and check signing duties because there was a reliance on securing a review through a second signature.

Recommendation: Limit check signing authority to Records Supervisors. Remove access to the check writing module for persons with check signing authority. Supervisors should print the daily check register and verify that the appropriate documentation supporting the disbursement has been provided for each check and that there are no gaps in the current check sequence and from the prior check register. Consider creating a report that lists all new payees and all changes made to payee data in the payee table. Once created, there should be an independent review of the report to determine that new payees and changes were appropriate and made correctly.

**Audit Standards**

Internal Audit conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that the audit is planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for its findings and conclusions based on the audit objectives.

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Internal Audit has reviewed this information with the Douglas County Director of Corrections and has attached his response to the bottom of this report. Internal Audit appreciates the excellent cooperation provided by management and staff. If you have any questions or wish to discuss the information presented in this report, please contact Mike Dwornicki at 444-4327.

Respectfully Submitted,

Mike Dwornicki  
Internal Audit Director



## Douglas County Department of Corrections

*Jeffery L. Newton, CJM*  
*Director*

*Mark Foxall, PhD, CJM*  
*Deputy Director*

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**Date:** March 3, 2011

**Subject:** Response to Cash Audit Report

**To:** Mike Dwornicki, Internal Audit Director

Mike,

Following is our response to your Cash Audit Report dated March 1, 2011.

**Recommendation #1:** Limit check signing authority to Records Supervisors.

**Response:**

DCDC Records staff has revised policy and practice to limit check signing authority to Records Supervisors.

Per policy 1.2.100, Inmate Accounting, Paragraph III D 2 (attached):

The Records Office Manager through the First National Bank will maintain a current listing of staff authorized to sign checks that includes: The Records Office Manager and Records Supervisors.

Staff that signs checks will not prepare the checks they sign. Staff that prepares checks will not sign checks they prepare.

Records Technicians II shall prepare checks for inmates upon their release, for deposit into the County's General Fund, and to vendors for payment for goods and services.

Records Supervisors or the Records Office Manager will sign checks prepared by Records Technician II. Verifying the name of the payee, check amount and check memo are appropriate for the transaction being performed.

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Per policy 1.2.100, Paragraph III D 3 (attached):

Accounting Software Application Security: The Administrative Service Manager will set security in the accounting software application to control access to check writing functionality.

- Records Office Manager
  - View Ledger
  - Void Check
  - Add/Edit Payees
  - View Payees

- Records Supervisors
  - View Ledger
  - Void Check
  - View Payees

- Records Technician II
  - View Ledger
  - View Payees
  - Write Inmate Check
  - Write Payee Check

**Recommendation #2:** Remove access to the check writing module for persons with check signing authority.

**Response:**

Access to the check writing module for persons with check signing authority has been removed per policy 1.2.100, Paragraph III D 3 (attached).

Checks can only be prepared by Records Technician II and checks can only be signed by Records Supervisors or the Records Office Manager

**Recommendation #3:** Supervisors should print the daily check register and verify that the appropriate documentation supporting the disbursement has been provided for each check and that there are no gaps in the current check sequence and from the prior check register.

**Response:**

During preparation of the daily Trial Balance Records Supervisors are required to ensure an accurate accounting for all checks prepared during the previous business day (per policy 1.2.100, Paragraph III E 2 a vi). This includes:

- Printing and reviewing the days Checkbook Ledger to identify and explain gaps in check numbers.

- Verifying check amounts match supporting documentation.

During audit of the daily Trial Balance the Records Supervisor/auditor is required to verify the daily Trial Balance has been properly accomplished (per policy 1.2.100, Paragraph III E 3 g). This includes:

Reviewing the days Checkbook Ledger to ensure gaps in check numbers are identified and explained.

Verifying check amounts match supporting documentation.

**Recommendation #4:** Consider creating a report that lists all new payees and all changes made to payee data in the payee table. Once created, there should be an independent review of the report to determine that new payees and changes were appropriate and made correctly.

**Response:**

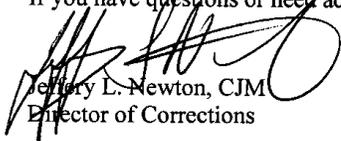
We have restricted access to functionality for creating and editing payees to the Records Office Manager only.

We have submitted a request to DOT.Comm to create a report that lists all new payees and all changes made to payee data in the payee table. However, the DOT.Comm web development team is completely involved in development of a grant funded booking and classification module and likely they will not be able to prepare this report until some time in late 2012.

Once completed, we shall conduct an independent review of the report to determine that new payees and changes were appropriate and made correctly. This report will be made available to independent auditors performing the annual audit of the inmate accounting system.

I greatly appreciated the professionalism with which you approached and completed this audit. The recommendations you provided will significantly improve internal controls and accountability within our inmate accounting system.

If you have questions or need additional information please don't hesitate to contact me.



Jeffrey L. Newton, CJM  
Director of Corrections

Copy: Kathleen Kelley, Chief Administrative Officer  
File

Attachment: Policy 1.2.100, Inmate Accounting  
March 3, 2011 email to DOT.Comm, Report for Check Payee Table

RKH:amm