



Greg Fischer
Mayor

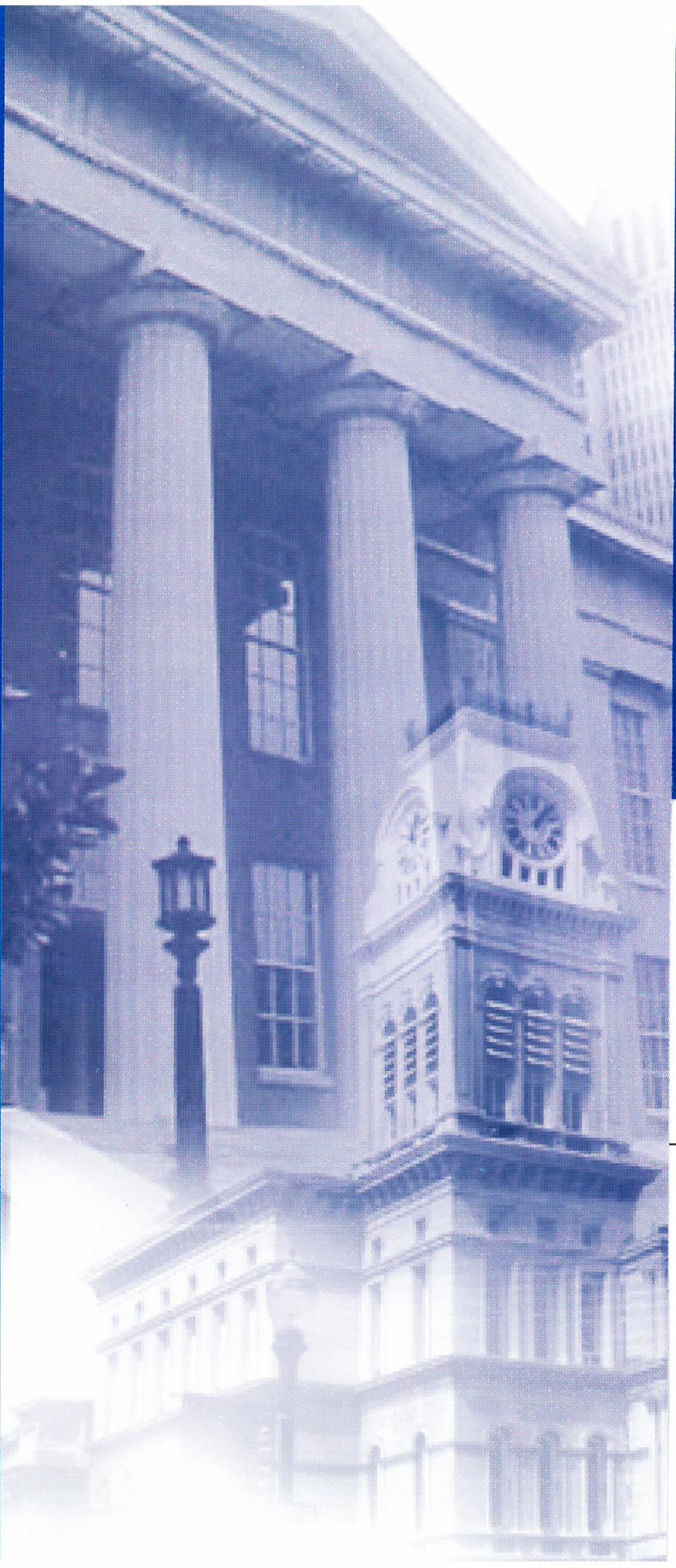
Louisville Metro Council

Office of Internal Audit

Louisville Metro Department
of Corrections

Booking Fee Activity

The Office of Internal Audit provides independent, objective assurance and consulting services that adds value to and improves Louisville Metro Government.



Audit Report

Louisville Metro Department of Corrections

Booking Fee Activity

April 2014



Office of Internal Audit

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of Corrections

Booking Fee Activity

Table of Contents

Executive Summary	2
Transmittal Letter	3
Introduction.....	3
Scope.....	4
Opinion	4
Corrective Action Plan.....	5
Internal Control Rating	6
Background.....	7
Summary of Audit Results.....	7
Observations and Recommendations	9
1) Booking Fee Activity	9
1a) Booking Fees Revenue and Receivables	10
1b) Cash Management Activity	12
2) Booking Fee Analysis.....	14

Executive Summary

PROJECT TITLE

Corrections – Booking Fee Activity

OBJECTIVE AND SCOPE

The objective was to perform an assurance review of the Louisville Metro Department of Corrections' (Corrections) cash management activity as it relates to the application and collection of booking fees. The operating policies, procedures and records for capturing booking fees within the newly implemented inmate management system (X-JAIL) were reviewed, with particular attention given to manual processes. The primary focus was on the operational and fiscal administration of the activity, to include how the activity is processed, recorded, monitored, and reported. The objective was to obtain reasonable assurance that the risks are adequately mitigated through the internal controls in the process. This project was the result of a special request from the Department of Corrections.

This was an assurance review based on current cash management policies and procedures and related activity. The review included activity from July 1, 2013 through November 30, 2013 to ensure a focus on booking fees and related cash management activity occurring immediately after the implementation of the X-JAIL System on June 23, 2013. The details of the scope and methodology of the review are addressed in the Observations and Recommendations section of this report.

INTERNAL CONTROL ASSESSMENT

Needs Improvement

RESULTS

Opportunities exist for improving the internal control structure for the Corrections' cash management activity. Examples include the following.

- **Booking Fee Revenues/Receivables.**
 - The monthly booking fee receivable balance could not be reconciled to transaction detail.
 - There was an instance in which the booking fee revenue could not be reconciled to system generated or manually collected support.
- **Cash Management.** Issues were noted with the cash management activities.
 - Cash on hand is not consistently verified or reconciled in the presence of two individuals.
 - Releases of cash cannot be reconciled using automated controls and system generated reports.
- **Booking Fee Application Analysis.**
 - A booking fee was erroneously not applied to approximately 27% of applicable inmate accounts during the period occurring immediately after the new system implementation.



OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

GREG FISCHER
MAYOR

INGRAM QUICK, CHIEF AUDIT EXECUTIVE

JIM KING
PRESIDENT METRO COUNCIL

Transmittal Letter

April 29, 2014

The Honorable Greg Fischer
Mayor of Louisville Metro
Louisville Metro Hall
Louisville, KY 40202

Subject: Audit of the Louisville Metro Department of Corrections Booking Fee Activity

Introduction

As requested, an audit of the Louisville Metro Department of Corrections' (Corrections) cash management activity as it relates to the application and collection of booking fees was performed. The operating policies, procedures and records for capturing Booking Fees within the newly implemented inmate management system (X-JAIL) was reviewed, with particular attention given to manual processes. The primary focus was on the operational and fiscal administration of the activity, to include how the activity is processed, recorded, monitored, and reported. The objective is to obtain reasonable assurance that the risks are adequately mitigated through the internal controls in the process. The Director of Corrections should be commended for proactively requesting the review.

The audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

As a part of the review, the internal control structure was evaluated. The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Achievement of business objectives and goals
- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

Scope

The operating procedures for the Corrections' cash management activity as it relates to the application and collection of booking fees were reviewed through interviews with key personnel. The focus of the review was the operational and fiscal administration of the activity. This included assessing whether activity was processed, recorded, and monitored accurately and appropriately. Specific areas reviewed included cash management activity occurring during the period following the X-JAIL implementation as well as a detailed analysis of the application of inmate booking fees during the period.

Tests of sample data were performed on transactions during the five month period occurring immediately after the X-JAIL implementation (July 1, 2013 through November 30, 2013). Activity reviewed included X-JAIL reports, manual activity logs, cash reconciliations, bank statements, and Louisville Metro financial system records.

An analysis was performed regarding the booking fees applied for all inmates booked into to Corrections during the five month review period (July 1, 2013 – November 30, 2013). All inmates booked into Corrections over the five month period were assessed to determine if and when a booking fee was applied to the inmate's account. This period was agreed upon with Corrections management due to the implementation of an inmate management system.

The details of the scope and methodology of the review are addressed in the Observations and Recommendations section of this report. The audit would not identify all issues because it was based on a selective review of data.

Opinion

It is our opinion that the internal control structure for the Corrections' cash management activity as it relates to the application and collection of booking fees needs improvement. The internal control rating is on page 6 of this report. The rating quantifies our opinion regarding the internal controls, and identifies areas requiring corrective action. Opportunities to strengthen the internal control structure were noted. Examples include the following.

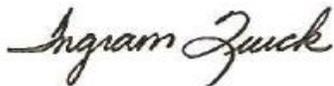
- **Booking Fee Revenues/Receivables.** Issues were noted regarding the booking fee revenue and receivables process.
 - The monthly booking fee receivable balance could not be reconciled to transaction detail for each of the five months reviewed.
 - There was an instance in which the booking fee revenue could not be reconciled to system generated or manually collected support.
- **Cash Management.** Issues were noted regarding the cash management activities.
 - Cash on hand is not consistently verified or reconciled in the presence of two individuals.

- Releases of cash cannot be reconciled using automated controls and system generated reports.
- **Booking Fee Application Analysis.** The analysis of all inmate bookings that occurred during July 2013 through November 2013 revealed issues regarding the application of booking fees during the review period.
 - A booking fee was not applied to approximately 27% of applicable inmate accounts during the period occurring immediately after the new system implementation. This had an approximate financial impact of \$156,000.

Corrective Action Plan

Representatives from Corrections have reviewed the results and are committed to addressing the issue noted. The corrective action plan is included in this report in the Observations and Recommendations section. We will continue to work with Corrections to ensure the actions taken are effective to address the issue noted.

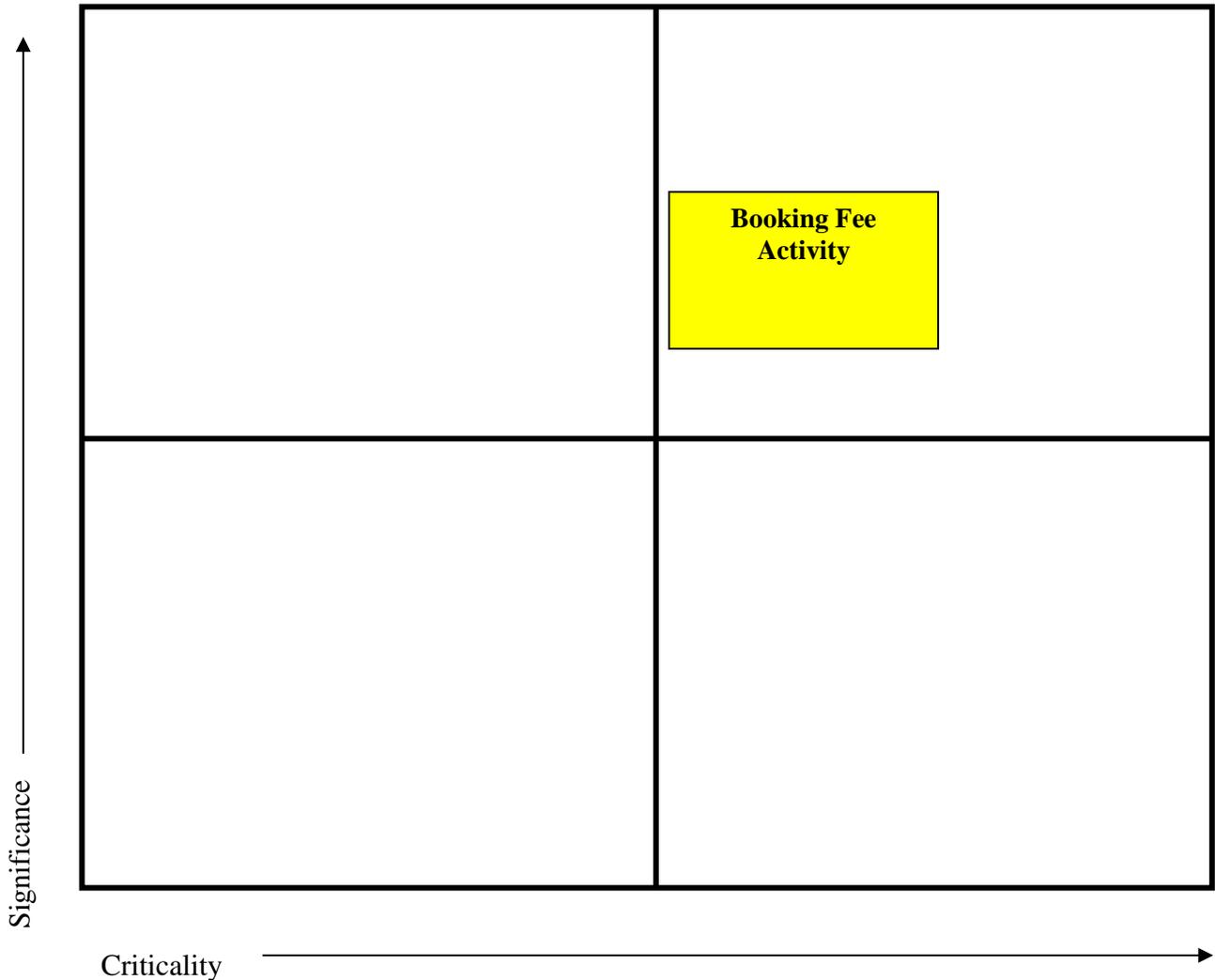
Sincerely,



Ingram Quick, CIA, CFE
Chief Audit Executive

cc: Louisville Metro Council Government Accountability and Ethics Committee
Director of Corrections
Louisville Metro External Auditors
Louisville Metro Council President

Internal Control Rating



<u>Legend</u>			
<u>Criteria Issues</u>	Satisfactory Not likely to impact operations.	Needs Improvement Impact on operations likely contained.	Inadequate Impact on operations likely widespread or compounding.
Controls	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
Policy Compliance	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
Image	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
Corrective Action	May be necessary.	Prompt.	Immediate.

Background

The Louisville Metro Department of Corrections (Corrections) enhances public safety by controlling and managing inmates in a safe, humane, and cost-efficient manner, consistent with sound correctional principles and constitutional standards. The department assesses inmates' needs and provides services to assist them with the transition and reintegration back into the community.

Corrections budgeted \$412,000 in booking fee revenue for fiscal year 2014.

This was a requested audit. On June 23, 2013, Corrections implemented an inmate management software platform (X-JAIL) to process, record and monitor inmate account activity. After the implementation of X-JAIL, Corrections' officials became aware that the quantity of booking fees applied to applicable inmate accounts had decreased significantly. In an effort to determine the cause of the sudden decrease in booking fee applications, an audit of cash management activity related to the application and collection of booking fees during the period immediately after the implementation was requested.

Summary of Audit Results

I. Current Audit Results

See Observations and Recommendations section of this report.

II. Prior Audit Issues

The Office of Internal Audit previously conducted a review of Correction's inmate account activity in July 2010. This audit was requested and the scope and objective was agreed upon with the Director of Corrections. Therefore all prior issues with cash management activity as it relates to booking fees have been satisfactorily addressed, unless otherwise noted.

III. Statement of Auditing Standards

The audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

IV. Statement of Internal Control

An understanding of the internal control structure was obtained in order to support the final opinion.

V. Statement of Irregularities, Illegal Acts, and Other Noncompliance

The review did not disclose any instances of irregularities, any indications of illegal acts, and nothing was detected during the review that would indicate evidence of

such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

VI. Views of Responsible Officials / Action Plan

A draft report was issued to Corrections on March 17, 2014. An exit conference was held with Corrections officials at Correction's administrative offices on March 31, 2014. Final audit results were discussed.

The views of Corrections officials are included as corrective action plans in the Observations and Recommendations section of the report. The plans indicate a commitment to addressing the issues noted.

LMCO §30.36(B) requires Louisville Metro Agencies to respond to draft audit reports in a timely manner. It specifically states that

“The response must be forwarded to the Office of Internal Audit within 15 days of the exit conference, or no longer than 30 days of receipt of the draft report.”

The Corrections response was provided within this required timeframe.

Observations and Recommendations

1) Booking Fee Activity

Scope

A review of Corrections' cash management activity as it relates to the application and collection of booking fees was performed. A thorough understanding of the operating policies, procedures and records for capturing booking fees and related cash management was obtained through interviews of key personnel and examination of supporting documentation. The primary focus was on the operational and fiscal administration of the activity, with a particular focus on manual processes and booking fee activity. This includes how activity is processed, recorded and monitored. The objective was to obtain assurance that the risks are adequately mitigated through the internal controls process.

The testing related to monthly booking fee revenues and receivables was conducted for each of the five months in the review period occurring immediately after the X-JAIL implementation. The testing related to cash management activity was conducted using a judgmental sample of 10 days (40 instances, two shifts per day, two registers per shift) occurring during the review period, July 1, 2013 through November 30, 2013. Activity reviewed included X-JAIL reports, manual activity logs, cash reconciliations, bank statements, and Louisville Metro financial system records.

The review would not reveal all weaknesses because it was based on selective review of data.

Observations

Issues were noted with Corrections' cash management activity. As a result, the effectiveness of the internal control structure needs improvement. Opportunities to strengthen the controls include the following.

1a) Booking Fee Revenue and Receivables

1b) Cash Management Activity

Details of these begin on the following page.

1a) Booking Fees Revenue and Receivables

Some issues were noted with the booking fees revenue and receivables processed by Corrections' personnel. Examples include the following.

- **Revenue and Receivable Accuracy.** The balance of booking fee receivables is the result of several transactions that have occurred during the period, primarily transactions involving the application of booking fees and the subsequent collection of booking fees. As a result, the booking fee receivable balance for any given period should reconcile to transaction detail from the same period. Without a proper reconciliation the booking fees receivable balance and related data such as the amount of booking fees collected are more likely to be inaccurate.
 - For each of the five months reviewed, the monthly booking fees receivable balance generated using the reporting capabilities within the X-JAIL system did not agree to and was not reconciled to applicable transaction detail within X-JAIL. *Although Corrections has since upgraded their inmate account management system from Inmate Management System (IMS) to XJAIL, this issue was noted in a prior review.*
 - For one of the five months reviewed, the monthly booking fee revenue funds in the amount of \$13,579 were submitted to the Office of Management and Budget. However, the revenue funds that were submitted could not be reconciled to the amount of booking fees collected per the applicable X-JAIL system generated reports. According to the XJAIL system generated reports, \$8,723 in booking fees was collected during the month. Resulting in an un-reconciled difference of approximately \$4,856 between revenues submitted and booking fees collected.

Recommendations

Appropriate Corrections' personnel should consider the corrective actions recommended below to address the issues noted.

- ✓ Applicable staff should consult with the software vendor, to ensure that full functionality of the X-JAIL system is able to be achieved. Further, staff should work with the software vendor to resolve issues regarding accuracy of X-JAIL reports.
- ✓ Applicable staff should consider performing a reconciliation of the booking fee receivable balance to the applicable transaction detail on a periodic basis (i.e. at least monthly). By performing the reconciliation, any discrepancies can be quickly detected and resolved. Further, Corrections should work with the software vendor to determine if an automated reconciliation can be performed using the capabilities of the system. In performing the reconciliation, applicable personnel should consider the following:
 - The monthly booking fee receivable balance should agree to monthly transaction detail. Any differences between the receivable balance and the transaction detail should be investigated and resolved.
 - All reconciliations should be subject to a formal review, evidenced by way of the reviewer signature and the date of review.

Louisville Metro Department of Corrections' Corrective Action Plan

Corrections concurs and will implement the recommendations related to Booking Fee Revenue and Receivables. In addition, Corrections notes the following:

Data conversion to X-Jail created balances in the individual AR accounts and not the History account as anticipated. LMDC staff is working with the vendor to get this corrected, so that the receivable accounts would have a \$0 starting balance. In the meantime, during the reconciliation process reconciliations will include this balance as a reconciling item. LMDC staff is also checking with the vendor to automate the reconciliation process; however, this may take longer than correcting the balances. Reconciliations will be done monthly to ensure transaction detail and receivable balances are correct.

1b) Cash Management Activity

Some issues were noted with the cash management activities performed by Corrections' personnel. Examples include the following.

- **Funds Accountability.** There were instances noted where the accountability over funds was diminished due to the processes being followed by Corrections' personnel.
 - Corrections' personnel are not able to reconcile cash releases to a system generated report. Releases of cash are manually tracked. A manual log book is used to reconcile cash on hand. This manual process increases the risk of error. The cause of the inability to reconcile cash releases to a system generated report may be the result of an error within X-JAIL's reporting system or a lack of understanding of X-JAIL's reporting capabilities.
 - Funds collected at various cash collecting stations areas were not consistently reconciled in the presence of two individuals. The current procedure is for both the oncoming and off going officers (cashiers) to sign documentation indicating that cash on hand is reconciled.
 - In 6 of 40 instances, only one of the oncoming/off going officers signed the documentation indicating that cash on hand was reconciled. Therefore, it appears the officer is balancing/ reconciling his/her own cash drawer without oversight. This is a control weakness which could lead to the misappropriation of funds.

Recommendations

Appropriate Corrections' personnel should consider the corrective actions recommended below to address the issues noted.

- ✓ Persons assigned responsibility for cash management activity, including but not limited to cashiering, should be fully trained on all X-JAIL system operations as well as requirements for maintaining manual logs, reports, and receipts. All persons should be provided with the relevant policy and procedures for administering the activity.
- ✓ A major component of any reporting system is proper monitoring and reconciliation. It is imperative that administrative staff provide regular review of individual transactions for appropriateness, completeness, and adherence to requirements, along with monitoring of system reports. Ultimately, this will help ensure the reliability of information for management analysis and help with providing an effective audit trail.
- ✓ Cash reconciliation should be completed by someone other than the officer (cashier) and conducted in the presence of both the off-going and oncoming officer. Additionally, the reconciliation documentation should contain both signatures (oncoming/off going officers) indicating agreement from both parties involved in the exchange of funds.

Louisville Metro Department of Corrections' Corrective Action Plan

Corrections concurs and will implement the recommendations related to Cash Management Activity. In addition, Corrections notes the following:

The system issue is being discussed with the vendor. Staff is following the procedures for the current process until the system changes are in place. Management is ensuring that those steps are followed properly on an ongoing basis.

2) Booking Fee Analysis

Scope

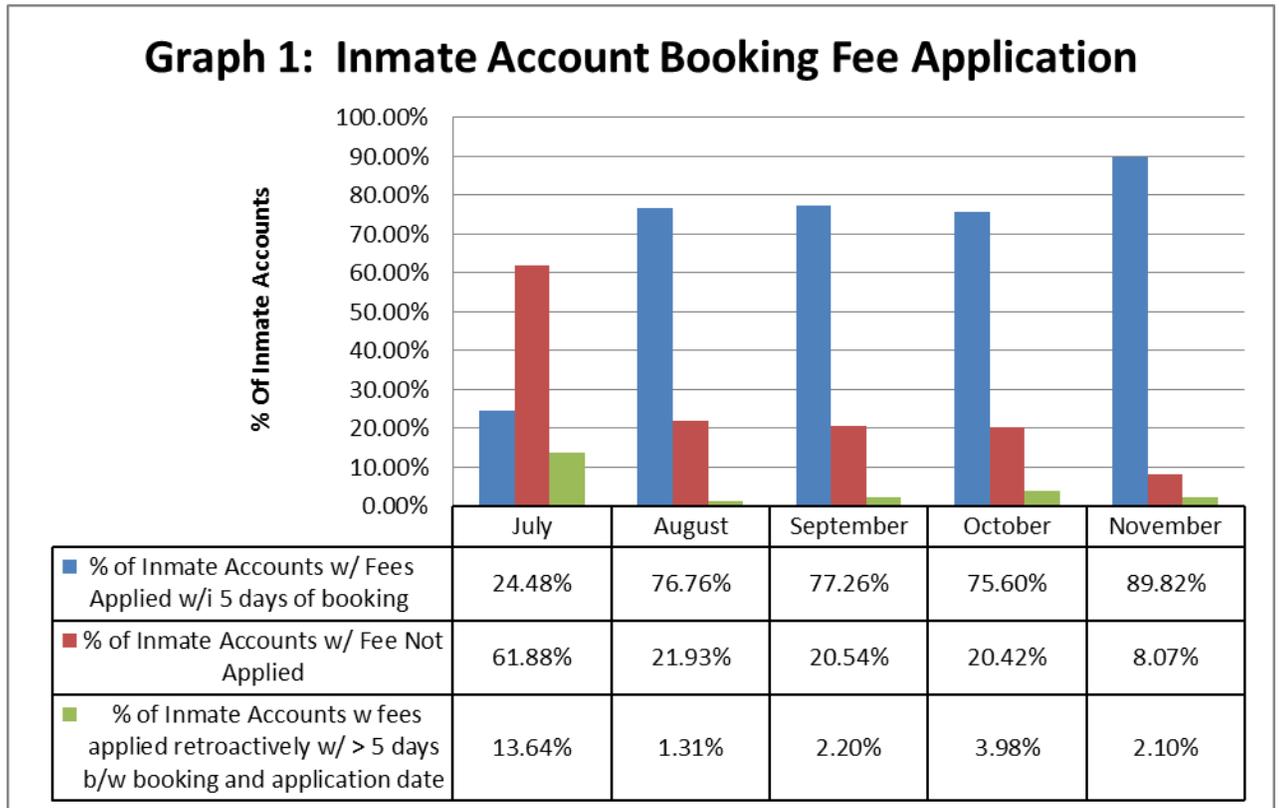
A thorough understanding of the operating policies, procedures and records for capturing booking fees was obtained. An analysis of all inmate bookings that occurred during July 2013 through November 2013, immediately after the Louisville Metro Department of Corrections migrated to a new jail management software platform, was performed. All inmates booked into Corrections over the five month period were assessed to determine if and when a booking fee was applied to the inmate's account.

Observations

Some observations were noted in regards to the application of booking fees during the review period. Examples include the following.

- **Booking Fee Application.** An analysis of all inmate bookings that occurred during July 2013 through November 2013, immediately after the Louisville Metro Department of Corrections migrated to a new jail management software platform, was performed. The purpose of the analysis was to determine if a booking fee was applied to each applicable inmate account. There were approximately 16,500 inmate bookings during the period under review.
 - A \$35.00 booking fee should be applied to all applicable inmate accounts upon admittance to the Corrections facility. However, a booking fee was erroneously not applied to approximately 27% of applicable inmate accounts during the period occurring immediately after the new system implementation. While the exact cause of the error cannot be determined within the scope of this audit, it is likely that the error is the result of a combination of systematic errors due to the complexity of the system implementation and clerical errors. As a result of the error, booking fee revenue may decline this fiscal year as compared to previous fiscal years.
 - The analysis indicates that the quantity of inmate accounts that were erroneously not charged a booking fee declined significantly from July (61%) to November (8%). In July, immediately after the system migration, over 61% of all incoming inmates did not have a corresponding booking fee applied to their inmate account. The percentage of uncharged inmate accounts decreased each month after the system migration. In November, five months after the system migration, slightly over 8% of all incoming inmates did not have a corresponding booking fee applied to their inmate account.
 - Booking fees were retroactively applied to qualifying inmate accounts, in the event the booking fee application error was detected and the inmate was in custody at the time of detection. For purposes of the analysis, retroactive application is considered to be the application of the booking fee to an inmate account greater than five days after the inmate booking. Approximately 5% of inmates admitted during the period had a booking fee retroactively applied to their inmate account.
 - Booking fees were applied to the applicable inmate accounts within five days of being admitted into corrections for over 24% of inmates admitted during July. The percentage of appropriately charged inmate accounts increased each month after the system migration. In November, five months after the system migration, over 89% of all incoming inmates did have a corresponding booking fee applied to their inmate account.

The results of the analysis are depicted graphically in Graph 1 shown below.



Recommendations

The responsible Correction’s staff should consider the following recommendations.

- ✓ The Louisville Metro Department of Corrections should develop or update existing policies and procedures to guide the staff in processing inmates during intake.
- ✓ The Louisville Metro Department of Corrections should work with the software vendor to provide training to applicable staff, in an effort to ensure staff understands the components and capabilities of the system.
- ✓ Applicable staff should consider performing a reconciliation of the quantity of inmates admitted to Corrections to the quantity of fees applied to inmate accounts on a periodic basis (i.e. daily, weekly). By performing the reconciliation, any discrepancies can be quickly detected and resolved. Further, Corrections should work with the software vendor to determine if an automated reconciliation can be performed using the capabilities of the system.

Louisville Metro Department of Corrections' Corrective Action Plan

Corrections concurs and will implement the recommendations related to the Booking Fee Analysis. In addition, Corrections notes the following:

System issues with application of booking fees have been corrected and all missed applications have been charged to appropriate inmate accounts. Staff has been retrained on the updated processes to ensure that booking fees are charged correctly. A reconciliation procedure is being developed to ensure the accuracy and integrity of the system is maintained and to locate any problems as they arise.

Office of Internal Audit

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