



COMMISSIONERS COURT
COMMUNICATION

REFERENCE NUMBER CO#129976

PAGE 1 OF 11

DATE: 04/16/2019

SUBJECT: **RECEIVE AND FILE THE AUDITOR'S REPORT FOR THE TARRANT COUNTY SHERIFF'S FISCAL YEAR 2017 COMMISSARY OPERATIONS**

COMMISSIONERS COURT ACTION REQUESTED:

It is requested that the Commissioners Court receive and file the Auditor's Report for the Tarrant County Sheriff's FY 2017 Commissary Operations.

BACKGROUND:

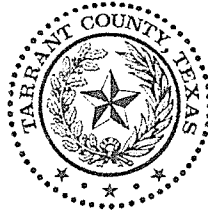
In Accordance with Texas Local Government Code Section 351.0415, "Commissary Operation by Sheriff or Private Vendor," the Auditor's Office examined the Tarrant County Sheriff's Office commissary operations for FY 2017.

As required by Texas Government Code 511.016, the Auditor's Office forwarded the audit report and a Jail Operations Summary of Revenues and Expenditures to the Texas Commission on Jail Standards.

FISCAL IMPACT:

There is no direct fiscal impact associated with this item.

SUBMITTED BY:	Auditor's Office	PREPARED BY:	S. Renee Tidwell
		APPROVED BY:	



TARRANT COUNTY
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April 10, 2019

The Honorable Sheriff Bill Waybourn
The Honorable District Judges
The Honorable Commissioners Court
Tarrant County, Texas

Re: Auditor's Report – Commissary Operations, FY2017

SUMMARY

In accordance with Texas Local Government Code Section 351.0415, "*Commissary Operation by Sheriff or Private Vendor*", the Auditor's Office examined the Tarrant County Sheriff's Office commissary operations for FY2017. Specifically, we reviewed general ledger receipt and disbursement accounts as shown on the attached financial statement and found that the commissary accounts fairly represent the commissary operations as of September 30, 2017.

Our review was limited in scope due to the manual nature of the inventory process and the lack of historical data recorded in Dbase, the system used to record money to the inmate trust accounts. In January 2018, the Sheriff's Office implemented a new inmate banking system. The Sheriff's Office anticipates the new inmate banking system will eliminate various manual processes historically used by the Money Confinement Room officers. The new system should provide adequate financial controls, including segregation of duties, to mitigate the risk of lost funds and also provide historical financial data. We will evaluate and test the controls of the new system during the audit of the FY2018 Commissary Operations.

We observed the following two observations that require management's attention:

- Observation 1 Controls over inventory purchased with commissary funds were not adequate.
- Observation 2 Management oversight of the commissary contractor was not adequate.

We discussed these issues with the Sheriff's staff. Attached is the Sheriff's management response.

BACKGROUND

Texas Local Government Code Section 351.0415 requires that the auditor verify the accuracy of the jail commissary accounts and report the findings to the Commissioners Court. Texas Government Code Chapter 511 requires that the auditor provide a copy of the audit to the Commission on Jail Standards no later than the 10th day upon completion of the audit.

Local Government Code also states that the Sheriff or his designee shall accept new bids for commissary suppliers every five years. The Commissioners Court approved Keefe Commissary Network as the primary vendor. The term of the current contract is October 1, 2017 to September 30, 2018 and allows for four additional 12-month terms. Keefe maintains commissary item stock, operates the point of sale, and hosts the trust accounting software, KeepTrak.

OBSERVATIONS AND RECOMMENDATIONS

Observation 1 Controls over inventory purchased with commissary funds were not adequate.

Background

The Sheriff's Department uses SAP as their inventory management system. Upon receipt of inventory from a vendor, the warehouse staff enters a good receipt into SAP, certifying that the goods were received. Inventory related expenses are recorded and categorized based on the type of expense. Categorizing expenses is required for the County's Comprehensive Annual Financial Report.

Inventory purchased with commissary funds is stored in the Sheriff's commissary warehouse located at the Resource Connection. Upon receipt of an order, the warehouse manager prepares the items to be delivered to the requesting facility.

As of September 30, 2018, inventory held at the Resource Connection totaled approximately \$145,000.

Observations

During our review, we found that controls over inventory purchased with commissary funds were not adequate. Specifically:

1. We selected 15 items recorded in SAP as commissary inventory and performed a physical count of each item. Of the 15 items, 2 items did not match the inventory balance shown in SAP. This condition occurred because: 1) orders were not always entered into SAP as an expense when items were transferred to a jail, and 2) materials returned to the warehouse were not recorded back to inventory. Rather, we observed that inventory expense *significantly* increased at year end, indicating that entries were made to SAP to match the actual inventory in the warehouse.

Furthermore, documentation supporting the chain of custody of inventory transferred to and received by the jails did not exist.

2. Entries recorded in SAP were not always accurate:
 - a. We selected 14 goods receipts and found that 2 were incorrectly entered into SAP. The officer entered the full budgeted amount of instead of the actual amount.
 - b. We selected 31 expense accounts and found that 4 transactions were recorded to an incorrect expense account.

3. Documented procedures related to inventory purchased with commissary funds do not exist.

As a result, these conditions pose an increased risk for theft and errors. Specifically, inventory items can be easily stolen and recorded in SAP as an expense. This condition was included in prior audit reports dating back to FY2014.

Recommendations

The Sheriff's Department is currently working with the Information Technology Department to develop procedures to better utilize SAP for the recording of commissary inventory. These procedures should include recording the movement of inventory into SAP when the items are transferred between the warehouse and jail and any returned items. Furthermore, documentation should exist showing the chain of custody of the inventory. For example, the person receiving the inventory should sign a document affirming that the items were received. In accordance with the County's records retention schedule filed with the State of Texas, inventory documentation should be maintained at least for the current fiscal year plus three years.

The Sheriff's Office management should also ensure that staff is properly trained in SAP, including how to record returned inventory. There are SAP training opportunities available through the County's Employee Self Service (ESS) portal.

Management should also develop documented procedures related to commissary inventory. These procedures should also require a periodic inventory, i.e. monthly or quarterly, to reconcile the physical inventory to the inventory balances recorded in SAP.

Observation 2 Management oversight of the commissary contractor was not adequate.

Background

The Tarrant County Jail Inmate Services Agreement states that Keefe Commissary Network (Contractor) will pay Tarrant County the greater of 1) 40% of sales, less sales tax paid and postal sales, or 2) \$1,500,000 per year. The Contractor further agrees to remit a guaranteed monthly minimum payment in the amount of \$125,000 by the 10th day of the month. On the 10th of the subsequent month, the Contractor will submit any additional funds that were collected during the preceding month if the sales based percentage exceeds the guaranteed monthly minimum payment.

The Sheriff's Office maintains an approved price list for commissary items sold to inmates which is posted in inmate cells and is used by the Contractor as the pricing standard. The contract states that any price increases must be approved by the Sheriff. The point of sale system is owned and operated by the Contractor. The Contractor is responsible for the accuracy of the item prices, the sales tax rate, and any tax exemptions in the system.

Sales tax collected on behalf of the State of Texas must only be collected on taxable items and adhere to the Limited Sales, Excise, and Use Tax Act (Tax Code, Chapter 151). A drug or medicine that is required to be labeled with a "Drug Facts" panel by the FDA is exempt from sales tax (Sec. 151.313, Health Care Supplies).

Observations

During our review, we found that management oversight of the commissary contractor was not adequate. Specifically:

1. The commissary contractor did not always remit payments owed to the County on time. Specifically:
 - a. Three of 12 guaranteed payments totaling \$375,000 were not remitted to the County by 10th of month. The past due payments were received 2, 8, and 9 business days late.
 - b. Nine of 12 supplemental payments totaling \$269,497.69 in excess of the guaranteed amounts paid were not remitted to the County by the 10th of the subsequent month. Five of the payments were at least 10 days late and up to 38 days late.

Although the contract states that any payment received after the due date may be subject to late fees, it does not specify the amount of the interest and/or penalties. This condition has been reported in the last three commissary audits.

2. The Contractor did not always assess the correct price on commissary items.
 - a. The Contractor did not update the Green Bay pricing database upon the Sheriff's approval of the current price list. We identified 33 items that were undercharged at the Green Bay facility based on the price list approved on June 27, 2018. Although we believe the loss was immaterial, County did not get the additional commission income on the price increase of these items. Upon communication of this issue, the Sheriff's Office staff took immediate corrective action.
 - b. The Contractor collected sales tax on medicated bar soap even though this product is sales tax exempt. Noncompliance with the Texas Limited Sales, Excise, and Use Tax Act can result in fines or audits by the Texas Comptroller. Upon communication of this issue, the Sheriff's Office staff took immediate corrective action.

- c. Receipts provided to the inmates after a purchase show the total amount of the purchase, but does not show detail of the transaction, such as the quantity and unit price of items purchased. As a result, the inmate does not have the ability to verify the quantity and the unit price of the items purchased.

Recommendations

Management should develop comprehensive operating procedures for monitoring the timeliness of commissions owed to the County, including any follow up with the Contractor in the event of late payments. The operating procedures should also require an independent review of the sales and commission information submitted by the Contractor to ensure the accuracy of the payments made to the County.


The Sheriff's Department should also conduct a full review of commissary prices at each location to ensure that the Contractor is charging the accurate price. This audit should also include testing the sales tax exempt status of qualified items.

Additionally, Keefe should be contacted to immediately correct the software used to print receipts to show full detail of the transaction, including unit price and quantity of each item purchased.

CLOSING REMARKS

We appreciate the assistance and cooperation of the Sheriff's Office staff during our review. Please call me if you have any questions regarding the contents of this report.

Sincerely,



S. Renee Tidwell, CPA
County Auditor

Attachments: Commissary Operations–Summary of Cash Receipts and Disbursements, FY2017
Management Response
Letter to Texas Commission on Jail Standards

Distribution: David McClelland, Chief of Staff, Administration
Charles Eckert, Chief, Confinement
Randy Cundiff, Executive Chief Deputy, Confinement
Mike Gravitt, Captain

Audit Team: Kim Trussell, Audit Manager
Matt Jones, Senior Auditor
Ky J. Stafford, Internal Auditor

**TARRANT COUNTY SHERIFF'S OFFICE
COMMISSARY OPERATIONS**

**Summary of Receipts and Disbursements
For the Fiscal Year Ended September 30, 2017**

Beginning Fund Balance, October 1, 2016 \$ 3,295,426

Receipts:

Commissary Income	\$ 1,835,479	
Auction Proceeds	814	
Interest Income	30,606	
Prior Year Reimbursement	-	
Total Receipts	<hr/>	\$ 1,866,899

Disbursements:

Salaries & Benefits	\$ 967,641	
Bedding & Clothing	333,710	
Jail Indigent Supplies	71,042	
Non-Tracked Equipment	1,967	
Recreation	157	
Personal Hygiene	31,039	
On-Line Service (Law eBooks)	15,558	
Supplies	32,765	
Equipment	7,126	
Equipment Maintenance	15,885	
Subscriptions	5,918	
Telephone - Basic	962	
Asset Depreciation Expense	8,000	
Commissary Inventory Variance	(49)	
Canine Expense	7,004	
Kitchen Supplies	1,843	
Total Disbursements	<hr/>	\$ 1,500,568

Receipts Over Disbursements \$ 366,331

Ending Fund Balance, September 30, 2017 \$ 3,661,757



TARRANT COUNTY

OFFICE OF THE SHERIFF

BILL E. WAYBOURN

Bill Waybourn
Sheriff
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200 Taylor Street
Seventh Floor
Fort Worth, Texas 76196

April 10, 2019

S. Rene Tidwell, CPA
County Auditor
100 E. Weatherford Street
Fort Worth, Texas 76196

Re: Response to Auditor's Report – Commissary Operations, FY2017

Ms. Tidwell:

I would like to thank you and your audit team for such a thorough review of our commissary operations. The comprehensive audit you and your team have done, as well as the recommendations you have made, brings a welcomed transparency to our accounts and our commissary processes.

Regarding Observation 1 – Controls over inventory purchased with commissary funds were not adequate. We are currently working with county IT in hopes to expand SAP functionality relating to our inventory control and believe this will sufficiently fix many of the issues relating to this observation. With that being said, we have also reviewed the remaining recommendations with our detention commissary staff and will work to implement the recommendations when feasible.

Regarding Observation 2 – Management oversight of the commissary contractor was not adequate. Currently we are working to improve our commissary reconciliation process with better trained staff and more communication regarding the payments made by the commissary vendor. This should help increase the accountability of the vendor on payments being made in a timely manner.

Furthermore, we will also work to incorporate your other recommendations regarding policies and procedures and reaching out to Keefe Commissary to adjust the receipts being given out.



TARRANT COUNTY

OFFICE OF THE SHERIFF

BILL E. WAYBOURN

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Sheriff
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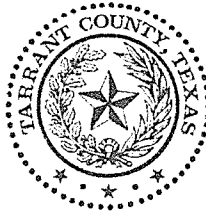
Plaza Building
200 Taylor Street
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Fort Worth, Texas 76196

Thank you and your audit team again for the hard work, professionalism, and dedication you have put into this report. I look forward to working with your office in the future.

At Your Service,



BILL E. WAYBOURN
SHERIFF
TARRANT COUNTY, TEXAS



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April 10, 2019

Mr. Brandon Wood, Executive Director
Texas Commission on Jail Standards
P.O. Box 12985
Austin, Texas 78711-2985

Re: Commissary and Jail Operations, FY2017

Dear Mr. Wood:

In accordance with Texas Local Government Code Section 351.0415, *Commissary Operation by Sheriff or Private Vendor*, we examined the Tarrant County Sheriff's Commissary Operations for the fiscal year ended September 30, 2017. As required by Texas Government Code, Chapter 511.016, *Commission on Jail Standards*, attached is a copy of the audit report dated April 1, 2019.

Since we have completed the FY2017 Comprehensive Annual Financial Report (CAFR), also attached is the Jail Operations Summary of Revenues and Expenditures report. The amounts reported in the CAFR have been audited by Tarrant County's independent auditors.

Sincerely,

[REDACTED]
S. Renee Tidwell, CPA
County Auditor

Attachments: Auditor's Report – Commissary Operations, FY2017
Commissary Operations, Summary of Receipts and Disbursements
Jail Operations, Summary of Revenues and Expenditures

Distribution: Bill Waybourn, Sheriff
David McClelland, Chief of Staff
Charles Eckert, Chief, Confinement
Randy Cundiff, Executive Chief Deputy, Confinement
Mike Gravitt, Captain

Audit Team: Kim Trussell, Audit Manager
Matt Jones, Senior Internal Auditor
Ky J. Stafford, Internal Auditor

**TARRANT COUNTY SHERIFF'S OFFICE
JAIL OPERATIONS**

**Summary of Revenues and Expenditures
For the Fiscal Year Ended September 30, 2017**

Revenues:

Prisoner Care	\$ 243,320.00
Payphone Commission	1,030,000.00
Social Security Incentive	80,800.00
MHMR	2,760,711.00
LEOSE Education Funds	<u>34,772.47</u>

Total Revenues

\$ 4,149,603

Expenditures:

Salaries & Benefits	68,308,921.61
Contracts	7,438,268.64
Buildings	7,391,434.96
Materials & Supplies	1,201,297.10
Capital Outlay	26,289.62
Court Costs	484.25
Travel-Education	51,813.84
Other - Vehicle Maint. and Fuel	<u>61,608.19</u>

Total Expenditures

\$ 84,480,118