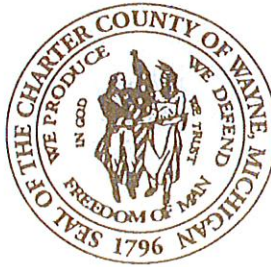


Office of Legislative
Auditor General

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November 10, 2017

FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commissioners:

Enclosed is the final copy of the Office of Legislative Auditor General's Performance Audit for the Office of the Wayne County Sheriff, Jail Commissary Operations. The report is dated September 27, 2017; DAP No. 2017-57-005. The report was accepted by the Committee on Audit on October 25, 2017, and formally received by the Wayne County Commission on November 2, 2017.

We are pleased to inform you that officials and staff of the Wayne County Sheriff's Office, and the Department of Management & Budget, provided their full cooperation. If you have any questions, concerns, or desire to discuss the report in greater detail, we would be happy to do so at your convenience. This report is intended for your information and should not be used for any other purpose. This report is intended for your information and should not be used for any other purpose. Copies of all final reports of the Office of Legislative Auditor General can be found on our website at <https://www.waynecounty.com/elected/commission/office-of-the-legislative.aspx>.

Marcella Cora, CPA, CIA, CICA, CGMA
Auditor General

REPORT DISTRIBUTION

Wayne County Sheriff's Office
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Ashley V. Johnson, Assistant Division Director, Grants and Contracts

Wayne County Executive

County of Wayne, Michigan
Office of the Wayne County Sheriff
JAIL COMMISSARY OPERATIONS

Performance Audit

September 27, 2017

DAP No. 2017-57-005

EXECUTIVE SUMMARY

Introduction

The Jail Commissary Fund was established in 1967 to sell merchandise to inmates remanded in the Wayne County Jails. In 1991, the Jail Commissary Board was established to oversee commissary operations. After an unsolicited proposal was received in 2014, the county contracted with Continental Distributors Inc. d/b/a Canteen Correctional Services (Contractor) to provide Jail Commissary services and inmate banking. The contract was approved by the Wayne County Commission in July 2015 that was to result in the county receiving a minimum annual guarantee payment (MAG) of \$450,000 per year, later reduced to \$400,000 year. In conjunction with awarding of the contract, the Jail Commissary Board ordinance was dissolved. At the request of the Wayne County Commission, the Office of Legislative Auditor General conducted a performance audit of the Office of the Wayne County Sheriff, Jail Commissary operations.

Audit Objective		
Objective #1: Assess Compliance with Key Contractual Provisions for Jail Commissary Services.		
Issues Identified	Type of Issue	View From Responsible Officials
2017-01 - Minimum Annual Guaranteed Payment Not Submitted in Accordance with Contract Provisions.	Material Weakness	Agree
2017-02 – Many Contractual Provisions For Inmate Banking System Not Implemented.	Material Weakness	Agree
2017-03 – County Not Always Providing The Contractual Required Inmate Workers.	Significant Deficiency	Agree

Issues Identified	Type of Issue	View From Responsible Officials
2017-04 – County Not Remitting To Contractor Within Required Due Date.	Material Weakness	Agree
2017-05 – Monthly Summary Reports Not Received.	Control Deficiency	Agree
2017-06 – Inadequate Insurance Coverage.	Control Deficiency	Agree
2017-07 – Failure To Comply With Product Pricing And Adjustments.	Significant Deficiency	Agree
Audit Objective		
Objectives #2: Assess Control Environment Over Jail Commissary Operations.		
2017-08 – Failure To Deposit Inmate Funds Timely.	Significant Deficiency	Agree
2017-09 – Lack Of Segregation Of Duties.	Material Weakness	Agree
2017-10 – Failure To Perform Reconciliations.	Significant Deficiency	Disagree
2017-11 – No Mechanism To Process Commissary Sales Results In Inappropriate Purchase Order And Inappropriate Accounting Treatment.	Significant Deficiency	Agree
2017-12 – Minimum Annual Guarantee Not Based On Inmate Population At Time Of Contract Negotiations.	Significant Deficiency	Agree
2017-13 – Accepting Deposits At The Jail Front Window.	Significant Deficiency	Disagree
2017-14 – Update Wayne County Sheriff's Website To Contain Commissary Information.	Control Deficiency	Agrees
Audit Objective		
Objectives #3: Benchmark with Other Local Units of Government Contracting For Jail Commissary Services.		
2017-015 – Unsolicited Proposal May Not Have Resulted In Most Favorable Revenue Terms.	Significant Deficiency	Agree

Views of Responsible Officials

These have been incorporated in the body of this report under Views of Responsible Officials.

Corrective Action Plan

A Corrective Action Plan (CAP) will be requested approximately 30 days after this report is formally received and filed by the Wayne County Commission. If sufficient corrective action is not taken, a follow-up review may be necessary.

REPORT DETAILS

PURPOSE / OBJECTIVE

At the request of the Wayne County Commission, the Office of Legislative Auditor General conducted a performance audit of the Office of the Wayne County Sheriff, Jail Commissary operations. This type of engagement provides an objective analysis to assist management and those charged with governance and oversight. The information provided can help improve controls and processes by parties with responsibility to oversee or initiate corrective action and contribute to public accountability.

Our objectives for this engagement were: (1) Assess compliance with key contractual provisions for Jail Commissary Services; (2) Assess the control environment over Jail Commissary operations; and, (3) Benchmark with other local units of government contracting for jail commissary operations.

SCOPE

We conducted this performance audit in accordance with Generally Accepted Governmental Auditing Standards (GAGAS) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

The scope of our engagement included the periods of July 1, 2015 through July 31, 2017. The fieldwork was substantially completed on September 27, 2017.

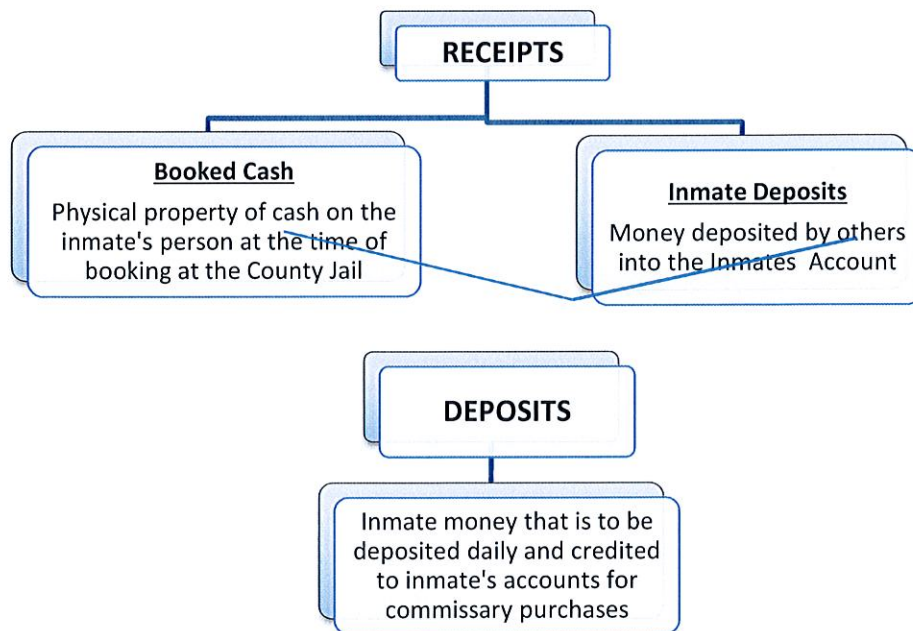
METHODOLOGY

The principal methodology used for this engagement was limited to interviews with key members of the Jail Commissary Division, Wayne County Sheriff's Office (WCSO); a walkthrough of Jail Commissary operations (Commissary) as performed by both the WCSO and the Continental Distributors Inc. d/b/a Canteen Correctional Services (Contractor). We obtained copies of the sales invoices from the Contractor that was paid by the county and their supporting documentation to verify that the sales were valid. We reviewed the process for making both deposits and withdrawals from inmate accounts in support of Jail Commissary transactions. We verified ACH deposits from the jail kiosks to the county's Inmate Property bank account. We also performed other analytical procedures. Finally, we benchmarked Jail Commissary operations with other counties to determine if there were best practices that could be employed by Wayne County in future Commissary operations.

Finally, we met with management officials to discuss our findings, obtain their input, and their concurrence and/or disagreement with the report's conclusions, findings and recommendations.

BACKGROUND

In 1967, the Wayne County Commission (Commission) established the Jail Commissary Fund as an Enterprise Fund to sell merchandise to inmates remanded to the Wayne County Jails. The Commissary has been in operation since 1972. In 1991, the Jail Commissary Board was established by ordinance to oversee commissary operations. The Commissary operates for the purpose of offering items for sale to inmates. The Commissary sells food products, hygiene supplies, clothing, telephone calling cards, and writing materials. Individual Inmate Trust Accounts (Trust Accounts) are established with funds in the inmates' possession at the beginning of incarceration and credited with deposits made thereafter from family or friends who make deposits into the inmates' Trust Accounts. Inmates then place orders for commissary items, subject to availability of funds in their Trust Account. Commissary purchases are deducted from the Trust Accounts.



In January 2014, Continental Distributors Inc. d/b/a Canteen Correctional Services (Contractor) submitted an unsolicited proposal for Cost Savings, Inmate Banking, and Commissary Services. According to information provided to the purchasing division, the Commissary Board went through an extensive review process and recommended to purchasing to accept certain aspects of the unsolicited proposal. Part of the Sheriff's Office rationale for considering this unsolicited proposal was that over the past 12 years the cumulative total of the General Fund support was in excess of \$1 million. The Sheriff's Office estimates that contracting out this service will increase revenues and eliminate the need for the General Fund support.

In December 2014 the Purchasing Director recommended approval of the unsolicited proposal pursuant to 120.34 of the Wayne County Procurement Ordinance. The initial proposal included a minimum annual guarantee (MAG) to the county of \$400,000 per year based on an inmate population of 1,800. The agreement was renegotiated to increase the MAG to \$450,000 per year; however, the increase was based on an inmate population of 2,000. The contract was submitted to the Commission for approval in May 2015.

On July 1, 2015, the Commission via Resolution No. 2015-352, approved the three-year unsolicited contract with a two-year option to renew between the county and the Contractor. The contract period is from August 15, 2015 through August 14, 2018 with the county to receive a MAG of \$1,350,000 over the three year period or \$450,000 per year. In conjunction with this, the Commissary Board was dissolved. In December 2015, contract modification #1 was approved by the Commission to amend the subcontractor information. In August 2016, modification #2 was approved by the Commission to reduce the MAG to \$400,000 per year and to provide reimbursement to the Contractor for expenses associated with procurement of goods and services.

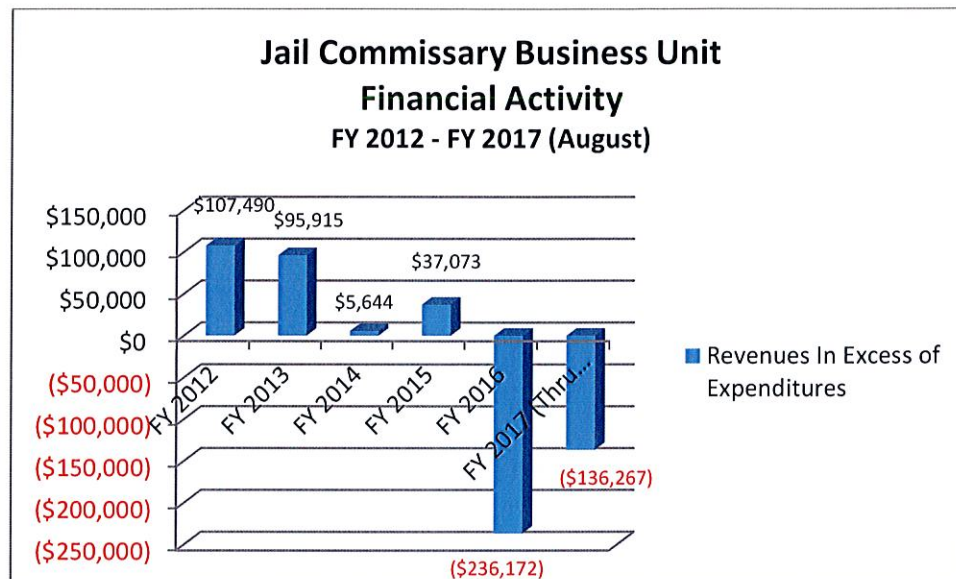
Financial Analysis

We reviewed the financial information provided by the Sheriff's Office that was submitted to the Commission along with the contract. We then compared this information to that recorded in the county's general ledger system for the commissary business and reviewed the county's Comprehensive Annual Financial Report (CAFR) for the Jail Commissary Fund. The Jail Commissary Fund includes the Jail Commissary business unit #35101 and the Inmate Program business unit #35103 which accounts for telephone revenue and various inmate programs.

We confirmed as identified by the Sheriff's Office from FY 2003 through FY 2014, the Jail Commissary business unit had combined losses of over \$1 million dollars for six of the 12 fiscal years. The remaining six fiscal years had combined surpluses of over \$490,000. The net loss for the 12 fiscal years was over \$540,000. However, while the Jail Commissary business unit has experienced losses of over \$1 million, the Jail Commissary Fund has not required General Fund support.

In addition, we performed a review of the financial activity for the period when the Contractor began providing services, FY 2016 and FY 2017 through August 31st and compared it to the activity for FYs 2012 – 2015 which was prior to the contract being awarded. Prior to the contract being awarded, the Jail Commissary business unit had a small surplus each year. In FY 2016, the Jail Commissary business unit experienced a loss of over \$236,000. The loss is attributable to a \$650,000 payment for settlement with the National Retirement Fund for prior

Jail Commissary employees. Had the payment not been necessary, the Commissary would have had a surplus of over \$400,000. Currently in FY 2017 through August 31st, the Jail Commissary business unit has a loss of over \$136,000. However, we did identify a transfer of \$116,845 to the Sheriff's Phone Bank business unit within the General Fund. According to Sheriff Officials, this was to fund one deputy at the Sheriff's headquarters. This deputy answers questions of the public either through visiting the headquarters or through the telephone. It was Management & Budget's decision to fund through the Commissary Fund and in FY 2018 will be funded with general fund general purpose dollars. See chart below.



Key Contract Terms

The Contractor's responsibility is to provide the commissary services and indigent supplies and kits to the Wayne County jails on a weekly basis, based on administrative rules and existing court orders relating to jail commissary services. The Contractor was to purchase and pay for consumable food, hygiene products, indigent supplies and kits for inmates located in the Wayne County Jail Divisions I, II, and III (Andrew C. Baird Detention Center, Wayne County Jail and William Dickerson Detention Facility). All individuals performing the services are employees of Contractor. The contract further required the county to provide inmate workers based on a number determined by the county and the Contractor. The Contractor was to bill the county on a weekly basis for Net Sales of indigent kits and indigent supplies for the prior week. Each week, the Contractor invoices the county for the total gross sales of products including indigent kits from the prior week. Payment is due 10 days after the invoice date.

Some of key requirements of the contract include:

- The Contractor to provide 2-3 kiosks in the jail lobby to provide for commissary deposits, bail, phone time, work release, inmate debit, booking, or any other fee currently taken at the window.
- The Contractor to provide 1-3 kiosks in the booking area. Inmates at the time of booking can deposit cash within their possession into their accounts.

- The Contractor to provide a debit card terminal and debit cards, which will be used by assigned jail personnel, to load an inmate's remaining balance from their commissary account at the time of release.

Compensation

Key highlights of the compensation in Appendix B of the contract included:

- The Contractor would pay the county a MAG commission of \$450,000 per year in monthly installments of \$37,500 based on an average population of 2,000. If the inmate population increase/decrease by more than 10% (calculated annually), the Contractor and the county will renegotiate the annual commission amount.
- If net sales of the Commissary exceed 15% (\$1.3 million is the baseline) the county would receive 10% of any net sales in excess of the \$1.5 million. Net sales is defined as total products, less indigent kits and supplies, phone cards, all pass-through items, sales or use taxes and authorized returns.
- If the Contractor is not able to assess a \$3.00 convenience fee from eligible inmate accounts for a processing booking fee, then the MAG will be reduced to \$400,000 or monthly installments of \$33,333.33. (Resolution No. 2016-465, dated August 18, 2016 decreased the amount of the MAG, accordingly).
- The Contractor would pay the county a commission of \$1.00 per transaction for Bail Revenue paid through the Kiosks.
- Menu management and pricing was to be mutually agreed to by the county and Contractor.

ASSESS COMPLIANCE WITH KEY CONTRACTUAL PROVISIONS FOR JAIL COMMISSARY SERVICES

Objective – Assess compliance with the key contractual provisions for Jail Commissary services.

Conclusion

As part of our review, we identified key contract provisions between the county and the Contractor. We then performed a review to determine if the Contractor was in compliance with those key provisions. Based on our review, the Contractor was not in compliance with several key contract provisions including not installing kiosks at the jail booking areas, not instituting a debit card release program, acceptance of bail revenue at the kiosks and subsequent transaction fee revenue to the county. However, in many instances non-compliance was the result of the Sheriff's Office not allowing the Contractor to implement the service. In addition, the Sheriff's Office did not provide the Contractor with inmate workers as stipulated in the contract. The key noncompliance areas are identified below:

Minimum Annual Guarantee Payments Not Submitted in Accordance with Contract Provisions

MAG payments were not always submitted in accordance with the contract provisions. Specifically, the Contractor's MAG payments were not always paid at amounts specified in the contract. In addition, many of the payments were submitted months after they were due to the county.

Minimum Annual Guarantee Payment Less Than Required in Contract

The county was to receive a MAG payment of \$450,000 in monthly installments of \$37,500. The effective date of the contract was August 15, 2015 with the first MAG payment due after the second full month of commissary sales. The contract allowed for a reduction in the MAG payment if a \$3.00 convenience fee could not be assessed by the contractor from eligible inmate accounts for processing a booking fee. As the contractor was not allowed to charge the \$3.00 convenience fee, the annual MAG was reduced to \$400,000 payable in monthly installments of \$33,333.33. This reduction did not require Commission approval.

The contract also specified that if the average inmate population of 2,000 increased or decreased by 10 percent, the MAG would be renegotiated. According to an October 2016 communication from the Contractor, the Sheriff's Office agreed to a reduction in the MAG. A November 2016 communication from the Contractor outlined their proposed reduction in the MAG as shown below:

Rationale	Deduction
Original MAG	\$400,000
Less for decrease in inmate population, 1745 (13%)*	-52,000
Less cost for not utilizing inmate labor	-15,600
Less cost for functioning integration	-27,500
Requested Annual MAG	\$304,900
Requested Monthly MAG	\$25,408.33

***According to Sheriff's Office August 15, 2015 – August 14, 2016
Average Inmate Population was 1,796**

Beginning with October 2016, the Contractor reduced the MAG to \$25,408.33 or 24 percent. Due to a slight increase in inmate population, the Contractor increased the MAG to \$26,708.33 for the April and May 2017 payments that were received in September 2017. In February 2017, the Contractor submitted to the Sheriff's Office its modification to reflect the reduction in MAG. The modification to the contract has not been submitted to the Commission for approval; however, the Contractor is remitting the reduced amount to the county.

Moreover, based on the average inmate population of 1,870 from August 15, 2016 through August 14, 2017, currently, the Contractor would not be entitled to a current reduction in the MAG as the average inmate population was not less than 10 percent of the 2,000.

As a result of the above reductions, the Contractor has paid the county \$60,800 less than required in the contract provisions as shown below.

Minimum Annual Guarantee Payment Not Always Remitted Timely

In addition to the reduction in MAG payments, we also noted that 9 of the 11 monthly payments (July 2016 – May 2017) were not submitted timely to the county. In some instances, payments were approximately 3-1/2 months late. We also noted that several monthly payments were submitted at one time as shown below. Not only is late submission of MAG payments a violation of the contract but also impacts the county's cash position and potential loss of interest income.

Minimum Annual Guarantee Payments Not Paid in Accordance with Contract Provision

Month	Amount Due	Amount Received	Over/(Under) Payment	Paid Timely	Date Paid	Approximate Months Late
July 2016	\$33,333.33	\$33,333.33	0.00	No	12/15/16	3-1/2 months
August 2016	33,333.33	33,333.33	0.00	No	12/15/16	2-1/2 months
September 2016	33,333.33	33,333.33	0.00	No	12/15/16	1-1/2 months
October 2016	33,333.33	25,408.33	(7,925)	No	3/7/17	3-1/4 months
November 2016	33,333.33	25,408.33	(7,925)	No	3/7/17	2-1/4 months
December 2016	33,333.33	25,408.33	(7,925)	No	3/7/17	1-1/4 months
January 2017	33,333.33	25,408.33	(7,925)	No	3/7/17	1/4 months
February 2017	33,333.33	25,408.33	(7,925)	Yes	n/a	n/a
March 2017	33,333.33	25,408.33	(7,925)	Yes	n/a	n/a
April 2017	33,333.33	26,708.33	(6,625)	No	9/18/17	3-1/2 months
May 2017	33,333.33	26,708.33	(6,625)	No	9/18/17	2-1/2 months
Total	\$366,666.63	\$305,866.63	(\$60,800)			

In addition, we noted that Jail Commissary management recorded the MAG revenue in the "Revenue Snack Food" line item. This is the same account in which commissary snack sales were incorrectly recorded.

It appears that the reduced MAG payments and late submissions were the result of the Jail Commissary management not having procedures in place to ensure the MAG payments were in accordance with the contract provision. In addition, commingling the MAG payments in the same account used to record Snack Food Revenue hinders the ability of Jail Commissary management to track MAG payments.

Recommendation #2017-01 – Material Weakness

Wayne County Office of Legislative Auditor General recommends the Wayne County Sheriff's Office, Jail Commissary management:

- A. Request the vendor remit the \$60,800 MAG payments that are owed the county;
- B. Implement procedures to ensure the MAG payments are received in the contractually due amount and on a timely basis;
- C. Modify the contract to clearly specify what the base is to determine whether the population has increased/decreased by 10 percent; and,
- D. Create an account in JD Edwards specifically to record the MAG payments.

Views of Responsible Officials

Management Agrees.

The Sheriff's Office agrees with the three recommendations of the Auditor General with respect to MAG underpayments.

Corrective Action Plan

The Sheriff's Office will request, in writing, that the supplier pay the outstanding MAG balance to the county by September 30, 2017. The supplier will be notified that the MAG must be submitted to the county on the 15th day of each month. The Wayne County Sheriff's Office will work with Management and Budget to establish a separate revenue account for the deposit of MAG payments. The use of revenue account 649045 (Snack Food Sales) is not an accurate description of the revenue stream accounted for in this account. Account 643020 (Concession Revenue) is more applicable and appropriate and therefore that account will be in Business Unit 35101. Business Unit 35101.643020, Concession Revenue, will be used to record the MAG and any additional concessionary revenue in excess of the MAG for Canteen.

Renegotiation of Minimum Annual Guarantee per Contract Terms:

The contractual provision based on average daily population (ADP) states that the MAG is to be renegotiated when the ADP increases or decreases by 10% in a year. A reasonable interpretation of this clause would require a renegotiation for the second year of the contract beginning in September of 2016. Reconciliation was performed of the MAG which is owed to the county and the MAG which the vendor has paid decreases the MAG for the second year of the contract by an equivalent percentage as the decrease in ADP.

*The ADP, originally agreed to by both the county and the vendor was 2,000 inmates for an agreed annual MAG of \$400,000 (\$33,333.33 monthly). **(OAG Note: The original MAG agreed to, per Resolution No. 2015-352 dated July 1, 2015, was \$450,000 [\$37,500 monthly] based on an ADP of 2,000 inmates. The annual MAG was reduced to \$400,000 [\$33,333.33 monthly] via Contract Modification No 2, dated August 18, 2016. The MAG reduction was not based on ADP but, rather, the fact that Canteen could not assess a \$3.00 convenience fee from eligible inmate accounts for processing booking fee.)***

In the second year of the contract the ADP decreased by 204 to 1,796 inmates, a 10.2% decrease which would have triggered a MAG renegotiation. A 10.2% decrease in the MAG would have resulted in an obligation by the vendor of \$359,200 (\$29,933.33 monthly) for the second year of the contract.

For the third year of the contract the ADP was 1,870 inmates, a 6.5% reduction from the 2,000 inmate baseline. A less than 10% reduction would have required the vendor to increase their payment amount back to \$400,000 annually (\$33,333.33 monthly).

*The reconciliation assumes that the vendor began to perform their services in November of 2015 and that the change in MAG, when appropriate, would be effective on the contract anniversary date. **(OAG Note: The contract was approved July 1, 2015 with an effective start date of August 15, 2015. The first MAG payment was not payable until after the second full month of commissary sales. Therefore, the first MAG payment was due in November 2015.)***

Many Contractual Provisions for Inmate Banking System Not implemented

The inmate banking system (Canteen Manager Program) was to integrate the inmate trust accounts, booking kiosks and lobby kiosks. The program was also to automate the booking and release function related to the inmate trust accounts. However, several key provisions of the contract that were to provide substantial cost savings and improved quality and services for inmate banking program were not implemented as shown below:

Booking Kiosks Not Installed

The Contractor was to provide 2 – 3 booking kiosks in the jail inmate booking area which would allow inmates at the time of booking to deposit cash within their possession into their inmate trust accounts. The booking kiosk creates the record of the transaction and provides receipts; one for jail records and the other to the inmate property file. However, these kiosks were never installed. As a result, Sheriff Personnel are responsible for recording the transaction, transferring the funds to the inmate property file, ensuring the funds are deposited, and recording the funds in the inmates' account.

In December 2016, the Contractor notified the Director of Commissary operations that the services were not being performed as a result of the county's decision to not integrate JMS into the Canteen Manager Program and therefore the booking kiosks were not provided. At that time, according to the Contractor's communication, they were willing to pay for the integration costs associated with the implementation of the Canteen Manager Program, if the county pursued integration.

Not only is not having the booking kiosks a violation of contract terms, but increases the risk associated with the handling of inmate funds at the time of booking.

Debit Card Release Program Not Implemented

Per the terms of the contract, the Contractor was to provide an Inmate Release Debit Card System that was to allow the discontinuance of writing checks to inmates upon their release. At the time of the proposal, according to the Contractor, the annual savings to the county was calculated as a minimum of \$720,000 annually. However, the debit card release terminal and associated debit cards were not implemented.

Specifically, the county jails would receive a debit card terminal and debit cards at no cost to the county. Authorized WCSO personnel would load an inmate's trust account remaining balance onto the card upon the inmate leaving the jail. This would eliminate the process of issuing the inmate a check, thus reducing the risk of checks being lost or stolen, and/or reduce the number of unclaimed checks. This was to benefit not only the county but the inmates.

However, the WCSO decided to forego the implementation of the debit card release program and not realize the cost savings associated with the service. This was confirmed in a December 2016 communication from the Contractor. As a result of not implementing this service, not only is it a violation of the contract but issuing of checks to inmates has cost the county as much as \$200,000 per year. This is based on the 555 checks issued on average per month, or almost

6,700 per year. While the savings are not as substantial as originally proposed, it is still a savings to the county.

Bail Revenue Transaction for the County

Per the contract, the kiosks installed at Jail Division I/II and Jail Division III were to accept not only commissary deposits but deposits for bail bonds of which the county would receive \$1.00 per transaction. However, the bail bonds are not being deposited through the kiosks; therefore, the county is not receiving the Bail Bond fee of \$1.00 per transaction. Bail funds are still being received by WCSO staff.

The number of bond/cash deposit transactions from August 15, 2015 through July 31, 2017 was 12,229; totaling \$3,762,561.81. This resulted in \$12,229 lost transaction fees due to the county.

Not only is not accepting bail bonds through the kiosks a violation of the contract but also results in decreased revenue to the county. Moreover, this results in additional duties for WCSO personnel that could be alleviated by allowing bail bond funds to be deposit through the kiosks. However, according to the Contactor, and confirmed with the WCSO officials, it was the WCSO that did not allow the bail bonds to be deposited through the kiosks.

Recommendation #2017-02 – Material Weakness

The Wayne County Office of Legislative Auditor General recommends:

- A. The Wayne County Sheriff's Office implements procedures to ensure all contractual obligations related to the inmate banking program are complied with.
- B. If contractual obligations are modified, ensure contract modification is presented to the Wayne County Commission for approval.

Views of Responsible Officials

Management Agrees

The key components of the contract related to the Canteen Manager Program, the installation of 2 -3 booking kiosks, Inmate Release Debit Card System, and lobby kiosks to accept commissary and bail funds were not implemented pursuant to the contract. The implementation of Canteen Manager Program was delayed due to complications experienced with the interface between the compatibility of the new Jail Management System (JMS) and the Canteen Manager Program. The contract with Tyler Technologies, creator of the Jail Management System, contained language that listed JMS as the holder of the inmate trust account. In addition, the Sheriff's technology staff has been working with the Contractor's technology staff and the JMS supplier to resolve integration issues and a determination was made that significant interface issues cannot be resolved during the remainder of this contract.

Corrective Action Plan

Due to the issues with integration (as noted above) these services were not implemented by the supplier. (OAG Note: Communication received from the supplier indicated that the decision to not implement was made by the Wayne County Sheriff's Office. The vendor also indicated its willingness to pay for the cost of integration.) After meeting with the supplier and as we enter

the final year of the contract, the Wayne County Sheriff's Office recommends removing these following services through a contract modification which will be submitted to the Wayne County Commission.

- *Inmate Debit Release System.*
- *Booking Kiosk*
- *Bail Bond Commission Payments.*
- *Canteen Manager Program operating as the holder of the inmate trust account. This is required as the Jail Management System (JMS) contract with Tyler Technologies has an inmate banking system module that cannot be integrated with the Canteen Manager Program Software.*

County Not Always Providing Contractual Required Inmate Workers

Per the contract, the county was to provide inmate workers having approved medical and other clearances at the designated commissary service area. The number of inmates required was to be determined by the county liaison and the Contractor's district manager prior to the commencement and throughout the course of operations. Such inmates shall be assigned duties in the operation that may include sanitation, product preparation and production, and storeroom functions. While the county provided inmate workers at Jail Division III, inmate workers were not provided at Jail Division I/II.

The issue of not providing inmate workers was communicated to the county by the Contractor in October 2016. At that time the Sheriff's office requested and the Contractor agreed to purchase cameras in the Jail Division I commissary office to allow monitoring of inmate workers. In November 2016, the Contractor requested a reduction in the MAG based on the inability to utilize inmate workers.

Recommendation #2017-03 – Significant Deficiency

The Wayne County Office of Legislative Auditor General recommends the Wayne County Sheriff's Office and the Contractor determine the required number of inmate workers needed to provide services per the contract.

Views of Responsible Officials

Management Agrees.

After the Contract was approved, a meeting was held with the supplier and Division I jail command to discuss the use of inmate labor at Division I. Division I Jail Command believed using inmate labor within an unsecured area of the jail created a liability for the County and the contractor thus, inmate labor was denied.

Corrective Action Plan

In October 2016, the contractor agreed to install cameras in the unsecured area. The cameras were successfully installed in March of 2017 and trustee labor assigned. Inmates who meet jail qualifications, and are cleared by the medical department, are assigned to Food Service,

Laundry, and Commissary on a daily basis. The Sheriff's Office believes this issue has been resolved.

County Not Remitting to Contractor within Required Due Date

The Contractor provides commissary services, including indigent supplies and kits, to the Wayne County Jails on a weekly basis. The Contractor submits a weekly invoice to the county for the sale of commissary products, indigent kits, and indigent supplies. The county is contractually obligated to pay these invoices within ten (10) days after the invoice date.

To determine whether the county was paying these invoices within the required ten (10) day timeframe, we reviewed 89 invoices and compared the invoice date to the payment date to assess timeliness. We also assessed payments to ensure the payment amount matched the invoice. We noted that since the execution of the contract in August 2015, the WCSO has not paid an invoice within ten (10) days of the invoice date, as stipulated in the contract. Specifically, of the 89 invoices reviewed, totaling \$2,028,563, none were paid within 10 days of the invoice. The average number of days for the 89 invoices under review was 58 days from the date of the invoice to the payment date. The minimum number of days was 21 days and the maximum number of days prior to payment was 91 days,

Our review also noted the following:

- Six (6) invoices, totaling \$140,362, paid without supporting documentation.
- One (1) invoice contained an overpayment of \$1,404.
- In addition, ten (10) invoices, totaling \$261,024, have not yet been paid.

It appears Jail Commissary management did not have procedures in place to ensure that invoice payments were made in the correct amounts based on supporting documentation and in a timely manner. As a result, the WCSO is in violation of its contractual obligation.

Recommendation #2017-04 – Material Weakness

Wayne County Office of Legislative Auditor General recommends the Wayne County Sheriff's Office, implement procedures to ensure timely, accurate payments of weekly invoices.

Views of Responsible Officials

Management Agrees.

The Auditor General determined that six (6) invoices totaling \$140,362 were paid without supporting documents. The Sheriff's Office will be working with Accounts Payable (AP) regarding this matter as AP generally cannot and will not make payments without supporting documentation. The second finding was one (1) invoice contained an overpayment of \$1,404. The Sheriff's Office will review how this happened and implement changes to ensure it does not happen in the future. The third finding was that ten (10) invoices totaling \$261,024 have not been paid. Further, since the inception of the contract in August 2015, the Commissary submitted over \$2 million in late payments to the vendor. Much of this was a result of how the purchase order was written. Corrective action had to be taken to fix the purchase order so the vendor could be paid.

Sheriff's staff is working to ensure past due invoices and future payments are made on a timely basis. It should be noted that because the vendor had not been paid on a timely basis over the course of the contract, the vendor delayed the payment of the monthly MAG to the county.

Corrective Action Plan

The Wayne County Sheriff's Office will submit the supplier's weekly invoice for payment to Accounts payable within 15 days of receipt. A letter will be sent to the supplier, acknowledging payments will be submitted and the payment processed according to the monthly payment schedule used by the Accounts Payable Division. The Wayne County Sheriff's Office will submit the necessary contract modification to the Wayne County Commission for approval regarding a change in the payment process.

Monthly Summary Reports Not Received

The contract between Contractor and the County, Appendix A, Scope of Services, Section 4.D, states, "Contractor shall provide the County with a comprehensive monthly summary of Gross Sales, services and credits. This summary shall be forwarded to the County Administrator or his designee each month." However, we noted that the Contractor has not submitted any of the required monthly summaries of gross sales, services and credits that are required.

Not receiving the monthly summary reports is not only a violation of the contract but, more importantly, hinders the ability of Jail Commissary management to determine if total net sales of the Commissary exceed the contractual baseline amount which would result in the county receiving additional revenue.

According to Jail Commissary management they did not require the monthly summary reports because the invoices submitted weekly by the Contractor identify gross sales as all funds are payable back to the vendor. The only commission payable to the county is the Minimum Annual Guarantee (MAG). Net sales are listed on the invoice and are for indigent items only. The only credits would be credited back to the inmates through the Jail Management System (JMS). The credits would be listed on the documentation.

Recommendation #2017-05 – Control Deficiency

We recommend the Wayne County Sheriff's Office, Jail Commissary implement procedures to ensure the contractor submits the required monthly summary reports as required.

Views of Responsible Officials

Management Agrees.

The Sheriff's Office agrees that monthly reports are required pursuant to the Contract and will require the vendor to provide monthly reports. It should be noted that the Auditor General's staff were provided the daily and weekly reports generated by Continental Correctional Services detailing the daily and weekly sales.

Corrective Action Plan

A letter will be sent to the supplier advising them that the daily/weekly reports generated by Continental (and which have been consistently produced) are sufficient to provide the necessary

information and therefore a contract modification will be submitted to the Commission which will eliminate the monthly reports requirement.

Inadequate Insurance Coverage

During our review, we noted that the Contractor maintains the required insurance coverage, however, the required coverage insurance limits are not always being maintained is not in accordance with the contractual requirements.

Specifically, the contract requires Professional Liability insurance endorsed to include Personal and Advertising Injury, Products Completed with minimum limits of Three Million Dollars (\$3,000,000) per claim and Three Million Dollars (\$3,000,000) in the aggregate with three year continuous claim coverage. However, based on our review, the insurance limits are \$1,000,000 for each occurrence and the Personal & Advertising Injury limits are \$1,000,000, The General Aggregate limit is \$2,000,000 and the Products-Completed Operations Aggregate limit is \$2,000,000.

We also found the county was not listed as an additional insured as required in Section 12.03 of the contract. The section specifically states that the contract requires the county, its officers, officials, employees, and volunteers to be listed as additional insured.

Jail Commissary management failed to ensure the Contractor obtained the required insurance policies with the requisite coverage limits. Nor did Jail Commissary management ensure the county was listed as a co-insurer. Not ensuring the required insurance coverage limits were obtained or ensuring the county is listed as additional insured exposes the county to unnecessary risk.

Recommendation #2017-06 – Control Deficiency

We recommend the Wayne County Sheriff's Office, Jail Commissary implement procedures to ensure the contractor obtains and maintains the required insurance coverage and ensures the county is listed as a co-insurer.

Views of Responsible Officials

Management Agrees.

Although the auditors noted that the vendor does carry the noted insurance as required in the contract, the insurance limits in accordance with the contractual requirements were not at the level required in the contract. The vendor stated that although they maintain limits of under the \$3 million required in the contract, (either \$1 million or \$2 million); they have an umbrella policy of \$15 million that would account for any deficiency relative to the contract requirements. The supplier presumed that their \$15 Million Umbrella Policy was sufficient to meet all insurance requirements.

The contract required the supplier provide the following level of insurance:

- Professional Liability insurance of \$3 million per claim and aggregate;*
- Commercial General Liability insurance of \$3 million per claim and aggregate; and,*
- Commercial Automobile Liability insurance of \$1 million.*

Corrective Action Plan

The Wayne County Sheriff's Office has instructed the supplier to provide copies of their current insurance certificates to the Risk Management Director, located at 500 Griswold, Detroit, MI for review. A review of the insurance requirements has been completed by Risk management, and the following recommended changes to revise the insurance requirements are included in the contract modification:

- *Professional Liability insurance of \$2 million per claim and aggregate;*
- *Commercial General Liability insurance of \$3 million per claim and aggregate; and,*
- *Commercial Automobile Liability insurance of \$1 million.*

Failure to Comply with Product Pricing and Adjustments

As part of the commissary operations, the Contractor publishes a menu which contains the items available for sale to the inmates along with the associated unit selling price. Per the contract, product pricing and adjustments to products sold must be mutually agreed upon by both the county and the Contractor. In addition, the Contractor is not allowed to add items or change pricing without the approval of Jail Commissary management.

To test the validity of sales and ensure that the amount charged per item agreed to the Contractors commissary menu price list, we judgmentally selected one (1) week from 2015, 2016, and 2017. For each week selected, we reviewed five (5) inmate invoices for each year for Division I/II and Division III. A total of 30 inmate invoices were selected for testing. Based on our sample selected, we noted that items purchased by inmates were not always based on approved pricing, items purchased not on the approved menu, and inmates allowed to purchase items that were not authorized purchases. Specifically, we found:

- Ten (10) out of thirty (30) invoices contained price discrepancies for a total of thirty-two (32) purchased items.
 - For seven (7) of the ten (10) invoices dated between October 2015 and July 2016, the Contractor charged the inmates based on pricing that was not effective until December 5, 2016. However, we did not see any written evidence of approval of that updated pricing. The Contractor should have utilized the pricing from the commissary menu effective August 2015.
 - Eighteen (18) items were overcharged by \$4.10.
 - Fourteen (14) items were undercharged by (\$4.40).
- One (1) invoice contained the purchase of an item that is not listed on the commissary menu.
 - An inmate at Division I/II purchased 2 foam cups for a purchase price of \$0.60. However, foam cups are not listed, and have never been listed, on the commissary menu.
- For ten (10) of the fifteen (15) invoices from Division I/II, dating back to October 2015, inmates were allowed to purchase items restricted for sale to inmates at Division III only. There were a total of 115 items purchased totaling \$102.45. The unauthorized purchases

included such items as soups, oatmeal, and refried beans all of which may require the use of a microwave. Divisions I and II do not have access to microwaves.

Jail Commissary management did not have procedures in place to ensure the Contractor only sold items approved by the County at the agreed upon price per item. In addition, Jail Commissary management did not have procedures in place to ensure a thorough review of revised commissary menus prior to distribution to inmates and ensure that separate commissary menus are used for Jail Division I/II and Division III. As a result, inmates were either overcharged or undercharged for items purchased from the commissary. In addition, inmates at Jail Divisions I/II purchased items that were not approved for sale by the county.

Recommendation #2017-07 – Significant Deficiency

The Wayne County Legislative Office of Auditor General recommends:

- A. Jail Commissary management implement procedures to ensure that all items available through the commissary are approved by the County at the agreed upon price per item.
- B. Jail Commissary management distribute two (2) separate commissary menus, one for each division, listing only those products that may be purchased by inmates at Division I/II and products that may be purchased by inmates at Division III.

Views of Responsible Officials

The Sheriff's Office is requesting a review of this item, as the office approved two menu changes and communicated those changes to the supplier.

Corrective Action plan

The Sheriff's Office will review the current menus and work with the supplier to ensure microwavable items for Division III are removed from the Division I menu. Menus will be corrected and reissued for each jail location. The Sheriff's Office will communicate to the supplier, in writing, that all menu changes must be approved by the Sheriff's Office before implementation.

ASSESS THE CONTROL ENVIRONMENT OVER JAIL COMMISSARY OPERATIONS

Conclusion

As part of our review, we assessed the control environment over Jail Commissary operations. We noted that some of the risk to the county related to Jail Commissary operations were mitigated when the county procured the services for operations such as procurement of goods, maintaining of inventory, and safeguarding inventory. However, as a result of the not having an integration between the Contractor's system and the Jail Management System, risk continues to exist for the county. We noted that the internal control environment could be strengthened to mitigate the

identified risk in the areas of the recording of inmate deposits, identified key contract provisions between the county and the Contractor, lack of segregation of duties, not performing reconciliations, inappropriate use of a purchase order, and improper recording of transactions as shown below.

Failure to Deposit Inmate Funds Timely

Inmates' family/friends can deposit funds into their commissary accounts by: (1) using the kiosks to make deposits using cash and/or a credit card; (2) calling in a deposit through an Interactive Voice Response (IVR) system; and, (3) making a deposit online. However, based on our review, the deposits were not always recorded timely within the inmates' accounts.

A contract deliverable was the implementation of the Canteen Manager Program. One of the functions of this program was the integration of the lobby kiosks with the Sheriff's Inmate Management System/Jail Management System (IMS/JMS). This would allow for real-time updating of deposits into an inmate's account.

However, during the period of our review, the implementation never occurred; thus, deposits are manually input into the inmate's account by Sheriff Personnel. The deposits manually entered are based on a Daily Detail Transaction Report generated from the Contractor and emailed to WCSO personnel. The Daily Report contains, among other items, the date of the transaction, how the funds were received (i.e., kiosk, IVR, or online), inmate ID, inmate name, and amount payable to the inmate's commissary account.

To determine if the deposits were recorded timely into the inmate trust accounts, we judgmentally selected one (1) TouchPay Daily Detail Transaction Report for the months of December 2015, June 2016, and February 2017. We then selected one (1) day from each of the above months for testing. (December 10, 2015, June 4, 2016 and February 24, 2017.) From these daily reports we traced the recording of the deposit into the inmate's account to determine if it was done timely.

Our results of the testing indicated that for one period selected, December 10, 2015, the detailed commissary accounts were not available due to the conversion of the IMS system to the JMS system. For the other two dates selected only one had the deposits posted timely. The other had 22 deposits totaling \$1,331.12 that were posted in some instances five (5) days after the deposit was made as shown below:

June 4, 2016

- There were 22 inmate deposits totaling \$1,331.12.
- Eight (8) inmate accounts, totaling \$361.05, were posted on June 6, 2016; two (2) days late.
- One (1) inmate account, totaling \$20, was posted on June 7, 2016; three (3) days late.
- Seven (7) inmate accounts, totaling \$388.06, were posted on June 8, 2016; four (4) days late.
- Six (6) inmate accounts, totaling \$562.01, were posted on June 9, 2016; five (5) days late.

Timely posting of deposits made into an inmates' trust account is necessary to ensure the funds are available for the inmate to make purchases through the commissary program. As a result, inmates may not have timely access to their funds which could result in a delay in commissary purchases and possible grievances being filed. Had the implementation of the interface occurred, the system would have posted the deposits immediately, thus eliminating the need for manual posting by Sheriff Personnel who could be better utilized in other jail functions. In addition, there is a higher likelihood of errors being made during the manual process.

Recommendation #2017-08 – Significant Deficiency

The Wayne County Office of Legislative Auditor General recommends: Until the interface is implemented between the Contractor's Banking System and the WCSO's Jail Management System, deposits are recorded by the next working day into the inmates' trust account.

Views of Responsible Officials

Management Agrees

The Sheriff's Office has reviewed the deposit procedure for kiosk deposits, and agrees that, due to staffing, weekend deposits are not credited until the following Monday.

Corrective Action Plan

The Sheriff's Office will review the job duties and staffing of employees for this operation and make the necessary internal corrections to ensure deposits are made in a timely manner.

Lack of Segregation of Duties

During our review of Jail Commissary operations, we noted that one individual manages or performs the majority of the jail commissary duties. Specifically, based on our walkthroughs of the operations, the Director of Commissary Operations, who is also the Contract Administrator; duties include but are not limited to:

- Receiving and depositing the Minimum Annual Guarantee (MAG) payment,
- Posting the journal entry to record the MAG payment,
- Receiving, approving and posting vendor invoices for payment,
- Posting all other journal entries to the Jail Commissary fund account.

The Director of Commissary Operations/Contract Administrator is the only person at the WCSO's Jail Division with jail commissary duties. She has no back-up or direct supporting staff to assist with jail commissary operations. Furthermore, there are no policies and procedures that address segregation of duties over Jail Commissary.

An effective system of internal controls requires segregation of duties to prevent or reduce the occurrence of errors or fraud. No single employee should have complete control over all components of an operation or transaction. Failure to segregate jail commissary duties could lead to undetected accounting errors, and potential misuse or misappropriation of county resources.

Recommendation #2017-09 – Material Weakness

Wayne County Office of Legislative Auditor General recommends the Wayne County Sheriff's Office implement procedures to ensure that operations within Jail Commissary are properly segregated and monitored by the Sheriff's administrative staff.

Views of Responsible Officials

Management Agrees

The Auditor reported that an effective system of internal controls require segregation of duties to prevent or reduce the occurrence of errors or fraud.

It should be noted that all inmate grievances are managed by the Jail Internal Compliance Department. All grievances are uploaded into the system by the Compliance Staff and assigned to the appropriate department for response. The grievances relative to commissary issues are assigned to the Commissary Director by the Compliance Department who in turn assigns the grievance to the vendor for review and response. After the vendor responds to the grievance, it is reviewed and approved by the Commissary Director and sent back to the Compliance Department. The Compliance Department will review the response before the grievance and the response is returned to the inmate. This process is used to manage all grievances

The Sheriff's Office accepts the recommendation by the Auditor General's Staff with regards to the commissary financial operations and will implement the necessary changes to ensure that the Commissary financial operations are properly segregated and monitored by the Sheriff's administrative staff.

Note: Inmate grievances are managed by the Jail Internal Compliance Department. All grievances are uploaded into the system by the Compliance Staff and assigned to the appropriate Departments for response.

Failure to Perform Reconciliations

During our review of jail commissary operations, we noted that jail commissary officials are not performing all the reconciliations that are essential in an effective system of internal controls. Specifically, the following reconciliations are not performed:

- The inmate trust bank account is not reconciled to inmate deposits and commissary purchases recorded in the Jail Management System (JMS).
- There is no reconciliation of the Daily Detail Transactions report of funds received electronically through the lobby kiosk, IVR and online; to the ACH deposits made by the Contractor in the inmate trust bank account.
- There is no reconciliation of weekly sales invoices received from the Contractor to weekly commissary purchases recorded in JMS on the Fund Ledger Report.

An effective system of internal controls includes the process of reconciliation to ensure the accuracy and validity of financial transactions. Weaknesses and inefficiencies in the reconciliation process often lead to mistakes and overall inaccuracies. However, Jail Commissary management did not implement procedures to ensure that reconciliations of

invoices and inmate deposits were performed. Failure to perform reconciliations on a timely basis could result in billing and deposit errors going undetected. In addition, failure to reconcile weekly invoices to commissary purchases recorded in JMS could result in overpayments to the vendor.

Recommendation #2017-10 – Significant Deficiency

Wayne County Office of Legislative Auditor General recommends:

- A. Wayne County Sheriff's Office, Jail Commissary management implement procedures to ensure timely, accurate invoice reconciliations.
- B. Jail Commissary management coordinate efforts with Sheriff Finance to reconcile inmate depository account on a monthly basis.

Views of Responsible Officials

The Sheriff's Office disagrees with this finding because Sheriff's Finance reconciles the inmate trust account, inmate deposit, and kiosk transactions Monday through Friday. Weekend and holiday transactions are reviewed on the first business day after the weekend and holiday. Finance Staff logs into the Jail Management System (JMS), to review all transactions that have been transferred from the Inmate Trust Account into the Commissary Account. All transactions are recorded into the Jail Management System and can be found in the system under inmate fund balance. The Commissary Account is used by Continental Correctional Services to record the inmate transactions. The Sheriff's Finance Department processes the monthly revenue check from JMS to Commissary account. All inmate transactions remain visible in the JMS as it was originally recorded. A monthly revenue check is generated from JMS by Sheriff's Finance Department and hand delivered to the Commissary Director for deposit into the Commissary account. All checks are deposited with the Wayne County Treasurer's office. A Journal Voucher is prepared by the Commissary Director, entered into JD Edwards, and sent to the Wayne County Management and Budget Department for approval. The Commissary Director prepares the Journal Voucher to record the revenue in the general ledger which is then reviewed and approved by M&B. This process is used as part of a checks and balance procedure.

The Finance Staff are responsible for the Inmate Trust Account to receive a copy of the kiosk reports and oversee all funds that are deposited into the Inmate Trust Account. The Finance Staff confirms the deposits are in the correct inmate account. The front desk officer at Division 3 will credit the inmate account for all checks submitted via U.S. Mail; at Downtown Jails the Inmate Property Staff make the deposits.

The Sheriff's Office disagrees with the first two Conditions and agrees with the third condition. To correct the third finding, the Sheriff's Office will ensure reconciliation of weekly sales invoices received from the vendor to the weekly commissary purchases recorded in JMS on the Fund Ledger Report.

To further clarify and explain the above responses, the finding focused on three areas related to reconciliation. The first was whether the Inmate trust bank account is reconciled to inmate deposits and commissary purchases recorded in the Jail Management System. Sheriff's Office staff does reconcile the inmate trust bank account and therefore disagrees with the finding.

Finance Staff logs into the Jail Management System to review all transactions that have been transferred from the Inmate Trust Account into the Commissary Account. All transactions are recorded into the JMS and can be found in the system under inmate fund balance. The Commissary Account is used by Continental Correctional Services to record the inmate transactions. The Sheriff's Finance Department processes the monthly revenue check from the JMS to the Commissary account. All inmate transactions remain visible in the JMS as it was originally recorded. A monthly revenue check is generated from JMS by Sheriff's Finance Department and hand delivered to the Commissary Director for deposit into the Commissary account. All checks are deposited with the Wayne County Treasurer's Office.

The second issue was whether there is a reconciliation of the Daily Detail Transaction report of funds received electronically through the lobby kiosk, IVR and online, to the ACH deposits made by Canteen in the inmate bank account. The Finance Staff is responsible for the Inmate Trust Account and receives a copy of the kiosk reports and oversees all funds that are deposited into the Inmate Trust Account. The Finance Staff confirms the deposits are in the correct inmate account.

Corrective Action Plan

The third area relates to reconciliation of weekly sales invoices received from Canteen to weekly commissary purchases recorded in JMS on the Fund Ledger report. To address the third issue the following action has been taken.

The Wayne County Sheriff's Office, working with the Management & Budget Department, established the following process to revise the invoice review and payment mechanism in accordance with accounting best practices:

A. Reconciliation of items purchased from the inmates, against the weekly invoices submitted:

- A lockbox clipped or otherwise attached to the delivery carts where inmates are to place the signed receipts.*
- Sheriff staff will receive the lockbox and review the daily receipts.*
- As part of receiving the signed invoices, the Sheriff staff member will add up the charged amounts for the day.*
- The total of deliveries for the day will be reconciled with the daily sales and credit reports submitted by the supplier. Variances will be noted, and any significant issues with variances will be investigated by county staff and handled as noted in section B below.*
- Sheriff's Finance Staff will check the Jail Management System to verify and confirm monthly sales of inmate purchases.*
- The Director of Commissary Operations will review all invoices submitted against the reconciliation conducted by the county staff and forward to Sheriff Finance for payment.*

B. Variances between inmate receipts and vendor invoice/report will be handled as follows.

- When a variance is noted by WCSO staff, the variance will be communicated to one or more supplier designated staff.*
- Supplier will respond to the variance with an explanation of the variance(s).*
- WCSO staff will document the supplier's response.*
- WCSO will initiate payment after the resolution of the variance.*
 - Supplier reissues invoice/report with correct amount.*

- *WCSO determines that the invoice/report is correct.*
- *If a variance cannot be corrected between WCSO staff and supplier staff it must be brought to the attention of the Director of Commissary Operations and supplier's General Manager for resolution.*

No Mechanism to Process Commissary Sales Results in Inappropriate Purchase Order and Inappropriate Accounting Treatment

The contract executed between the county and the Contractor is a revenue generating contract. Per contract terms, the only revenue the county should receive for the commissary operations is the commission from the Contractor in the form of the Minimum Annual Guarantee (MAG) and a percentage of sales in excess of the Commissary Net Sales base amount. The county's only commissary expenditure is the cost for indigent kits and indigent supplies.

However, when the contract was executed with the vendor, there was no discussion with representatives from the Jail Division and Management and Budget as to how the accounting and processing of commissary sales from inmates' accounts would be handled. As a result, neither a mechanism nor procedures were established for commissary sales by inmates and how to reimburse the Contractor. In addition, there was no oversight by the Purchasing Division to ensure that a purchase order was not issued for revenue generating contracts. Further, M&B Finance appears to have no process in place to prevent expenditures from being recorded when a revenue contract is executed. Consequently, an inappropriate purchase order was set up which in turn resulted in accounting entries being incorrectly recorded in the county's general ledger as shown below:

No Mechanism Established to Process Commissary Sales from Inmate Trust Accounts

Inmate Trust Accounts include the funds in the inmates' possession at the beginning of incarceration and, thereafter, are credited with deposits made from family or friends into the Inmate Trust Accounts. When inmates place orders for Commissary items, the purchases are to be deducted from the Inmate's Trust Account. However, we determined when the county contracted with the vendor to provide these services a mechanism was not established for transferring the funds from the Inmate Trust Accounts to the Contractor for the inmates' purchases.

Purchase Order Inappropriately Issued

The three-year contract between the county and Contractor was a revenue contract. However, as a result of not having a mechanism in place for transferring the funds from the Inmate Trust Accounts to the Contractor for the inmates' purchases, the county processed the sale of commissary items by using a blanket purchase order. A blanket purchase order was approved by the Purchasing Division and issued on November 13, 2015 in the amount of \$1,035,000, which was the projected MAG revenue amount to be received over the three year term of the contract. The blanket purchase order was then used as a mechanism to pay invoices submitted by the contractor in the amount of \$986,197 for Commissary sales through November 13, 2015.

Consequently, we determined the inmates' commissary sales of \$986,197 were recorded on the county's books as both revenue to the county and as an expense to the county for the payment of

the contractor's invoices. However, based on the type of contract (revenue) there was no projected expenditures in the contract that would permit the use of a purchase order for the payment of these invoices. Purchase orders should not be issued for revenue contracts. Valid purchase orders should only be issued for contracts that are approved by the Commission for goods or services.

Inappropriate Accounting Treatment for Jail Commissary Sales

The county recorded the sales as revenue in the Jail Commissary business unit but also recorded the sales amount as expenditures depending on the type of goods sold (i.e., food supply, dry goods, postage, etc.) Thus, the accounting for these transactions is incorrect. Per the contract, the only transaction that should be recorded for this contract is the MAG revenue and any commission for sales in excess of the base amount.

Consequently, to continue paying the contractor's invoices for commissary sales, a budget adjustment in the amount of \$850,000 was approved in January 2016 to record the revenue and expenditures.

Once the funds on the blanket were exhausted, the Sheriff's Office requested a modification to the contract in an amount not to exceed \$6,000,000 for the expenses associated with the Commissary sales that were invoiced by the contractor. This amendment allowed the County to continue to pay the contractor.

As a result, Jail Commissary Fund revenues and expenses have both been overstated. Consequently, although immaterial, the county's CAFR has been misstated.

Recommendation #2017-11 – Significant Deficiency

Wayne County Office of Legislative Auditor General recommends:

- A. Jail Commissary management work with Management & Budget to establish a policy and procedures to record the deduction from the Inmates Trust Accounts and the subsequent payment to the vendor for the Jail Commissary sales;
- B. Sheriff Division and M&B ensure that only the MAG revenue and any additional commission receipts are recorded as revenue in the Jail Commissary fund; and
- C. Sheriff Division and M&B ensure the cost of the indigent kits and supplies are the only expenditures recorded in the Jail Commissary fund related to the commissary sales.

Views of Responsible Officials

Management Agrees

In 2015 when the contract was approved, the Sheriff's Office believed it was following the correct county procedures when it requested a blanket order from the Procurement Division.

Corrective Action Plan

The Sheriff's Office is working with the Procurement Division and Management and Budget to establish new procedures for tracking the deduction of inmate purchases, and the payment

mechanism to reimburse the vendor. The Sheriff's Office is working with Management and Budget to establish procedures for the recording of MAG payments and other commissionable revenue. The Sheriff's Office is working with Management and Budget to set up procedures to record only the cost of indigent items and supplies to the Commissary Cost Center. The changes will be memorialized in a contract modification which will be submitted to the Commission for approval. Once approved, the blanket purchase order will be modified to remove the line items for the MAG and pass through costs, leaving only the line item for the county provided indigent inmate kits.

Minimum Annual Guarantee Not Based on Inmate Population at Time of Contract Negotiations

In December 2014, when the Purchasing Director recommended approval of the unsolicited proposal there was a Minimum Annual Guarantee (MAG) to the county of \$400,000 per year based on an inmate population of 1,800. Prior to submission to the Commission in May 2015, the agreement was renegotiated to increase the MAG to \$450,000 per year; however, the increase was based on an inmate population of 2,000.

In addition, the contract included a stipulation that if the \$3.00 convenience fee for processing the booking fees was not permitted, the annual MAG would be reduced to \$400,000 or payable in monthly installments of \$33,333.33. This reduction was approved in contract Modification No. 2 dated August 18, 2016.

The contract also calls for an annual review of the MAG commission if the inmate population increases or decreases by 10 percent; the MAG would be renegotiated.

However, when the contract was negotiated and sent to the Commission for approval, the Minimum Annual Guarantee was not based on the actual average inmate population at that time. Specifically, according to information provided by the Sheriff's Office, the average inmate population for FY 2015 was 1,944. However, after the contract had been in place for a year, the average inmate population dropped to 1,796 and the current contract year increased to 1,870 as shown below:

Average Inmate Population

August 15, 2015 through August 14, 2016 – 1,796

August 15, 2016 through August 14, 2017 – 1,870

The Contractor has reduced the MAG to reflect the 10 percent reduction from the 2,000 inmate population. While the contract would allow for a renegotiation of the MAG based on the 10 percent reduction in inmate population, had the contract been based on the actual inmate population at the time approved, there would not have been a need to reduce the MAG. Thus, the county executed a contract that realistically guaranteed a required renegotiation of the MAG, which would reduce the revenue to the county.

Recommendation #2017-12 – Significant Deficiency

We recommend when the Minimum Annual Guarantee is negotiated that it is based on the actual average inmate population at the time approved.

Views of Responsible Officials

Management Agrees.

The Sheriff's Office agrees that the MAG should be renegotiated to reflect the actual average inmate population. Commissary staff had been working with the vendor to adjust the MAG to reflect the average daily population. Furthermore, a contract modification will be submitted to the Commission for approval based on the renegotiated average daily population pursuant to the contract.

Corrective Action Plan

The Wayne County Sheriff's Office is working with the supplier to amend the Average Daily Population (ADP) to reflect the current ADP and renegotiate the Minimum Annual Guarantee (MAG) amount. The Wayne County Sheriff's Office will memorialize these changes in a contract modification and submit to the Commission for approval.

Accepting Deposits at the Jail Front Window

The Contractor has installed kiosks in the lobbies of both Jail Division I/II and Jail Division III. The purpose of the kiosks is to allow an inmate's family/friends to make a deposit, using cash and/or a credit card, into their commissary account. However, during our review we noted that jail staff is still accepting money orders for inmate deposits at the front window.

Wayne County Sheriff Jail management failed to develop and follow a written policy that would eliminate the acceptance of inmate deposits at the front window. In addition, Jail management asserts the acceptance of money orders is necessary due to the economic standing for individuals within the community who do not have online access or debit/credit cards at their disposal.

Our review disclosed that from August 15, 2015 through July 31, 2017 there were 43,586 front desk deposits processed, totaling \$2,138,376.61.

Continuing to accept deposits at the front window has resulted in:

- Reduced savings as projected in the proposal by the contractor.
- Increased risk of misappropriation, misplaced inmate deposits, and losses as a result of accepting fraudulent or counterfeit money orders.
- Sheriff personnel spending time that could be devoted to other functions.

Recommendation #2017-13 – Significant Deficiency

Wayne County Office of Legislative Auditor General recommends the Wayne County Sheriff's Office, Jail management implement procedures to eliminate the acceptance of inmate deposits at the front desk window.

Views of Responsible Officials

Management Disagrees.

The Sheriff's Office disagrees with this finding. Commissary management was not given the authority to eliminate the acceptance of inmate deposits at the front window. Commissary management advised the OAG staff that the decision to allow residents to continue to send in money orders was made by Jail Command Staff, who acknowledged some individuals within the community may not have access to the internet or debit/credit cards. (OAG Note: The OAG acknowledges that changing the policy is not a Commissary function but, rather, a Command Staff decision.)

Corrective Action Plan

The Sheriff's Office will change the internal process and no longer accept money orders at the front desk. When the machines are out of service, citizens will be directed to use an alternative method for deposits such as telephone and internet service.

Update Wayne County Sheriff's Website to Contain Commissary Information

As part of the contract to provide commissary services for the Wayne County jails, the Contractor installed lobby kiosks to accept deposits for inmate accounts. The purpose of installing the lobby kiosks was to make it convenient for inmates' friends and family to deposit funds into their accounts. To promote the use of kiosks, the information must be readily accessible to the public.

The Sheriff's Office home webpage contains a link to Wayne County Sheriff Connect (www.sheriffconnect.com). This link does include a Commissary section under Inmate Services. The site provides information on how to deposit to inmate accounts through lobby kiosks, over the Internet and on the phone. The site also provides links to <http://touchpayonline.com> and www.mycarepack.com/.

However, on the Sheriff's Office home webpage there is a link to the Jail Division. Included in this link is a section on Inmate Commissary Accounts. This section does not contain any information regarding how to deposit to inmate accounts through lobby kiosks, over the Internet and on the phone. Thus, there is a disconnect between the two (2) websites. Thus, the Wayne County Sheriff's Office does not have procedure in place to assure both websites are consistent and offer the most current information. Consequently, potential users of the electronic deposit options will have no knowledge of its existence and will continue to make deposits at the front desk.

Recommendation #2017-14 – Control Deficiency

Wayne County Office of Legislative Auditor General recommends the Wayne County Sheriff's Office, implement procedures to ensure that both websites are current, consistent and contain the most up to date information on inmate services.

Views of Responsible Officials

Management Agrees

The OAG stated the Wayne County Sheriff's Office does not have procedures in place to ensure both websites are consistent and offer the most current information.

Emails to update the website were provided to the prior Communications Director and Department of Information Technology.

Corrective Action Plan

The Sheriff's Office will request the Department of Information Technology that the website be updated to include the correct information to make sure it is accurate and on both websites.

BENCHMARK WITH OTHER LOCAL UNITS OF GOVERNMENT CONTRACTING FOR JAIL COMMISSARY OPERATIONS

Conclusion

The procurement of the Jail Commissary services was based on an unsolicited proposal by the Contractor. While Section 120.34 of the county's Procurement Ordinance allows unsolicited proposals after completion of due diligence of the Purchasing Director, competitive solicitation ensures the county receives a fair and competitive proposal. To determine if another proposal may have been more advantageous to the county, we benchmarked with other local units of government contracting their Jail Commissary operations. Based on this analysis, the revenue generated from the current contract based on a Minimum Annual Guarantee (MAG) may not be the most favorable to the county.

Unsolicited Proposal May Not Have Resulted in Most Favorable Revenue Terms

To determine if the county's revenue contract utilizing a MAG was most beneficial to the county, we benchmarked the Wayne County Jail Commissary contract with the following revenue generating contracts in other locations to determine if there were any financial terms in these agreements that might be beneficial for adoption by the Wayne County Jail Commissary in future contract negotiations. The two agreements we reviewed were:

- The Commissary Services Agreement between Macomb County and Canteen Correctional Services.

- The Agreement between the County of Santa Clara and Aramark Correctional Services, LLC for Inmate Commissary Services.

We noted that in both agreements, the commission was a percentage of Gross Sales as shown below:

- *Macomb County Commissary commission is based on 40.5 percent of Gross Sales of all Products, other than stamps and pre-stamped envelope, phone cards, all pass-through items and indigent Products (Products notes as such when approved by the County) Provided by Continental”.*
- *Santa Clara County commission is based on: (1) Fifty percent (50%) Gross inmate commissary sales, less sales tax, prepaid calling card, indigent kit sales and postage stamps; (2) Fifty percent (50%) Gross online commissary sales, less sales tax and service fees; (3) Thirty percent (30%) Gross commissary sales for prepaid calling cards*

The following table represents the potential commission from Wayne County Jails Total Commissionable Sales from August 2015 through May 2017 and applied the percent rates used by Macomb and Santa Clara County.

Wayne County Commissary Commissionable Sales August 2015 through May 2017 - \$2,020,391					
County	Commission Rate	Wayne County Commissionable Sales	Potential Wayne County Commission	Actual MAG Received	MAG Over/(Under) Potential Commission
Macomb	40.5%	\$2,020,391	\$818,258	\$527,450	(\$290,808)
Santa Clara	50%	\$2,020,391	\$1,010,196	\$527,450	(\$482,746)

Wayne County could have potentially received an additional \$290,808 to \$482,746 for the commissionable sales from August 2015 through May 2017 if the commission percentage structure was similar to those of Macomb County or Santa Clara County.

Recommendation #2017-15 – Significant Deficiency

The Wayne County Office of Legislative Auditor General recommends Jail Commissary management use competitive solicitation to ensure the county receives a fair and competitive proposal and consider various types of revenue contracts including percentage of sales.

Views of Responsible Officials

Management Agrees

The Sheriff's Office accepts the recommendation and will review commissioned based sales proposals for the next Jail Commissary Revenue Contract.

Corrective Action Plan

The Sheriff's Office will begin working with the Purchasing Department and issue an RFP that allows the Sheriff's Office to review proposals that offer the best revenue potential for the county.

OAG OVERALL CONCLUSION

The county has executed a contract for the provision of Jail Commissary services in the Wayne County jails that was based on an unsolicited proposal. Advantages of contracting the services were the opportunity for substantial cost savings and improved quality and services for inmate banking and commissary services. However, due to many of the key contractual provisions not being implemented, resulted in not only lost revenue to the county but the efficiencies and risk mitigation from the Contractor performing the services may not have been realized.

As a result of many of the transactions still being conducted by Sheriff officials, the control environment over those transactions should be strengthened to ensure that inmate trust account funds are safeguarded, accurate, and updated timely. Finally, the Wayne County Sheriff's Office should ensure that in the future, all procurement of this magnitude is based on a competition so that the process is fair and transparent.

There are 15 findings and 23 recommendations to strengthen controls and processes related to the Wayne County Sheriff's Office Jail Commissary operations. Four (4) of the findings are considered to be a material weakness, which is classified as high risk. Eight (8) of the findings are classified as significant deficiencies, which are deemed to be medium risk. The other three (3) findings are classified as a control deficiency which is deemed to be low risk.

We discussed the issues and corresponding recommendations with representatives from the Wayne County Sheriff's Office and Management & Budget officials. Management agreed with 13 of the findings and disagreed with two (2). Management's comments have been included in the report under "Views of Responsible Officials".

A Corrective Action Plan will be requested approximately 30 days after this report is formally received and filed by the Wayne County Commission. If sufficient corrective action is not taken, a follow-up review may be necessary.

This report is intended solely for the information and use of the Office of the Wayne County Sheriff and the Department of Management & Budget, Purchasing Division and the Wayne County Commission and is not intended to be and should not be used by another other than these specified parties. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

Sincerely,



Marcella Cora, CPA, CIA, CICA, CGMA
Auditor General

Appendix A

Definition of Internal Control Deficiencies

Control Deficiency (low risk)

A control deficiency exists when the internal control design or operation does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect or correct errors in assertions made by management on a timely basis. A deficiency in design exists when (1) a control necessary to meet the control objective is missing or (2) an existing control is not properly designed so that, even if the control operates as designed, the control objective is not met.

A deficiency in operation exists when a properly designed control does not operate as intended, or when the person(s) performing the control does not possess the necessary authority or qualifications to perform the control effectively.

Significant Deficiency (medium risk)

A matter that, in the auditor's judgment, represents either an opportunity for improvement or significant deficiency in management's ability to operate a program or department in an effective and efficient manner. A significant deficiency in internal control, or combination of deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process or report data reliably in accordance with applicable criteria or framework such that it is more than a remote likelihood that a misstatement of the subject matter that is more than inconsequential will not be prevented or detected.

Material Weakness Deficiency (high risk)

A significant deficiency that could impair the ability of management to operate the department in an effective and efficient manner and/or affect the judgment of an interested person concerning the effectiveness and efficiency of the department. A significant or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of subject matter will not be prevented or detected.