



COUNTY OF WINNEBAGO

WINNEBAGO COUNTY AUDITOR

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Decentralized Bank Account Internal Audit (Sheriff's Office)

August 16th, 2017

The mission of the Winnebago County Auditor's Office is to safeguard Winnebago County assets and provide objective, accurate and meaningful information about County operations so that the County Board can make informed decisions to better serve County citizens.

AUDIT TEAM MEMBER(S):

Bryan M. Cutler, Chief Deputy Auditor

Copies of County Auditor's reports are available by request.
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Gary Caruana, Winnebago County Sheriff
Members of the County Board
Frank Haney, County Board Chairman
Amanda Hamaker, County Administrator
Carla Paschal, Chief Financial and Budget Officer
Susan Goral, Treasurer

The Winnebago County Auditor's Office is required to perform several duties under Illinois Compiled Statute 55 ILCS 5/Div. 3.1. Sec. 3-1005. The Compiled Statute states that the County Auditor is required to "Maintain a continuous internal audit of the operations and financial records of the officers, agents or divisions of the County. The County Auditor shall have access to all records, documents, and resources necessary for the discharge of this responsibility".

Accordingly, the County Auditor's Office has recently completed an internal audit titled "Decentralized Bank Account Internal Audit (Sheriff's Office)". A decentralized bank account is one held outside the custody of the County Treasurer's Office. Furthermore, the accounts are not reconciled by the Treasurer's Office, transactions are not processed through the County's general ledger accounting system in the Finance Office and the County Auditor is unable to perform monthly claim audits.

Decentralized bank accounts currently in custody of the Sheriff are as follows:

Account Name	Bank	Balance as of 31-May-17	Receipts (8 Months) Oct 16-May 17	Prior Fiscal Year Receipts (2016)
Federal Drug Seizure	IL. Bank & Trust	266,155	3,217	270,852
State Drug Seizure	IL. Bank & Trust	201,976	123,429	85,852
Jail Commissary	IL. Bank & Trust	106,975	217,469	385,425
Jail Inmate Social Security	IL. Bank & Trust	61,843	59,250	88,925
Jail Inmate Trust	IL. Bank & Trust	450,044	Not Applicable	Not Applicable
Nuclear Safety Grant	IL. Bank & Trust	49,307	57,435	0
Sheriff Emergency Response	IL. Bank & Trust	4,191	0	7,300
Imprest Account	IL. Bank & Trust	6,293	15,662	30,312
CJC Fitness	Alpine Bank	9,270	3,575	8,037
		1,156,053	480,036	876,703

In the absence of authoritative guidance or a legitimate business purpose which requires certain accounts to be decentralized, the Auditor's Office will generally always recommend that bank accounts be centralized with the County Treasurer. There are several benefits to centralizing bank accounts with the County Treasurer such as:

- Improved internal controls particularly in creating proper segregation of duties
- Improved operational efficiency
- Streamlined year-end audit process with less risk of omitting material transactions
- Decreased risk of mishandling of funds by employees
- Increased transparency with County Administration, the County Board and constituents.

In regards to the aforementioned accounts we have examined the following:

- The description and purpose of the decentralized account
- Authoritative guidance authorizing establishment of account
- Authoritative guidance on use of funds and compared to actual use
- Internal control policy and timeliness of reconciliations

Our comments, findings and recommendations are below:

General Comments:

Finding 1: Incompatible duties lacking segregation of duties

In our observation the Sheriff's Office is maintaining adequate records and performing timely monthly reconciliations of all accounts in custody. We did however note instances of incompatible segregation of duties across all accounts which could be adjusted.

Recommendation 1:

The handling of receipts and managing of bank accounts should be segregated between different employees. The responsibilities in Group A, below, should not be performed by individuals with the responsibilities in Group B.

Group A

Recording accounting entries
Writing and mailing checks
Reconciling bank accounts
Maintenance of general ledger
Authorizing disbursements
Maintenance of accounts receivable

Group B

Cash receipts (in person or mail)
Signing checks
Reviewing bank reconciliations
Opening and reviewing bank statements
Approving disbursements
Performing interbank transfers

Account Specific Comments:

Federal Drug Seizure (Bal. \$266,154):

The Federal Drug Seizure account was established to hold the proceeds from the Department of Justice Equitable Sharing Program which is shared with state and local law enforcement agencies. Among other items, the Guide to Equitable Sharing for State and Local Law Enforcement Agencies manual provides guidance on a wide range of expenditures, such as general law enforcement operations and equipment purchases, for which the shared funds can be used and the associated required bookkeeping procedures.

Findings:

- Accounting for the Federal Drug Seizure account is being completed by the Sheriff's Office and not the Winnebago County Finance Department as required by the Guide to Equitable Sharing for State and Local Law Enforcement Agencies.
- Appropriations for expenditures are not being granted by the County Board prior to the expenditure of funds. The Guide to Equitable Sharing for State and Local Law Enforcement Agencies manual states that the department must "obtain approval for expenditures from the governing body, such as the town council or city manager's office, if appropriate". In our opinion, this indicates a requirement for the expenditure of funds to be approved and appropriated by the County Board similar to other County resources.
- 55 ILCS 5/3-6018 states that "purchases of equipment by the sheriff shall be made in accordance with any ordinance requirements for centralized purchasing through another county office or through the state which are applicable to all county offices." A firearm purchase in the amount of \$21,602 was made without the required competitive bid and award process described in the Winnebago County Code.

Recommendations:

- We recommend that resources contained in the Federal Drug Seizure be turned over to the County Treasurer's pooled cash account and a separate accounting fund be initiated by the Finance Department in the County's general ledger system to account for the revenues and disbursements of the activity.
- We recommend that the planned expenditures of resources in the Federal Drug Seizure account be appropriated by the County Board. However, the Guide to Equitable Sharing for State and Local Law Enforcement Agencies manual recommends that anticipated shared property revenue should not be budgeted due to uncertainty and unpredictability of future receipts.

- For purchases of equipment, we recommend that the Sheriff procure items within the guidelines of the Centralized Purchasing Ordinance contained in the County Code and required by state statute.

State Drug Seizure (Bal. \$201,975):

The State Drug Seizure account was established to hold the proceeds from a portion of the value of property seized by the State of Illinois which is distributed to the Sheriff's Office. Currently, there are numerous laws throughout the Illinois Compiled Statutes that pertain to property seizures. Guidance pertaining to the distribution and use of the proceeds is contained in the Illinois Controlled Substances Act. The funds may be used for certain drug enforcement related activities and equipment.

Findings:

There appears to be no authoritative guidance or business purpose which requires this account to be decentralized under the Sheriff. The Illinois Controlled Substances Act is silent on how the funds received by the Sheriff should be held. However, the State's Attorney's Office also receives a portion of the value of seized property under the Illinois Controlled Substances Act which states that resources should be "deposited in a special fund in the county treasury and appropriated to the State's Attorney." We believe the same treatment should be applied to amounts received by the Sheriff.

Recommendations:

- We recommend that the resources contained in the State Drug Seizure account be turned over to the County Treasurer's pooled cash account and a separate accounting fund be initiated in the County's general ledger system to account for the revenues and disbursements of the activity.
- We recommend that the resources contained in the State Drug Seizure account be appropriated by the County Board. Similar to the Federal Drug Seizure account, only resources currently available should be appropriated.

Jail Commissary (Bal. \$106,975):

The Jail Commissary account holds profits generated from the commissary program which provides detainees with items or access to services approved by the Sheriff. Section 701.250 Commissary in the Administrative Code Title 20 states, "e) Net profits from the commissary system shall be used for education, recreation or other purposes within the jail for the benefit of detainees, as deemed appropriate by the Sheriff. Profits may be used for record keeping expenses of the commissary."

Findings:

- There appears to be no authoritative guidance or business purpose which requires this account to be decentralized under the Sheriff.

- We noted one transaction in the amount of \$23,921 to pay the balance of an amount due on corrections transport vehicles. The other portion of the cost of the transport vehicles had been paid from County resources. This transaction appears to be outside the allowable use of the Jail Commissary account.
- The Jail Commissary is currently classified as an agency fund for financial statement reporting. However these funds are not held in trust for any particular inmate on a temporary basis, but instead are restricted for the overall benefit of detainees. We believe this distinction may indicate that the funds should be classified as a special revenue fund for financial statement reporting.

Recommendations:

- We recommend that resources contained in the Jail Commissary account be turned over to the County Treasurer's pooled cash account and a separate accounting fund be initiated by the Finance Department in the County's general ledger system to account for the revenues and disbursements of the activity. The newly created fund should also be appropriated by the County Board.
- We recommend that all payments be made in accordance with expenses allowed under the Administrative Code. If the account is turned over to the County Treasurer, the County Auditor will review expenses to ensure accordance with the Administrative Code prior to disbursement on a monthly basis.
- The Finance Office should evaluate the financial reporting status of the Commissary account resources and make any changes if necessary.

Jail Inmate Social Security (Bal. \$61,843):

This account is used to collect incentive payments from the Social Security Administration which are received as a reward for reporting the incarceration of an individual currently receiving Social Security benefits. This reporting is currently being performed by the Department of Information Technology. The guidance from the Social Security Administration provides no restriction on the use of the funds. The proceeds are currently being use to subsidize the Sheriff's budget for the purchase of small equipment, training and other small miscellaneous items.

Findings:

There appears to be no authoritative guidance or business purpose which requires this account to be decentralized under the Sheriff. Incentive payments are earned utilizing County financial resources and appear to be unrestricted in their use therefore they not should not be diverted into a separate checking account under the control of the Sheriff.

Recommendations:

We recommend that the Jail Inmate Social Security checking book be closed and that all revenue generated from incentive payments be deposited into the General Fund.

Jail Inmate Trust (Bal. \$450,043):

The Inmate Trust Account exists solely for the management of funds that are received from inmates during their incarceration period. These funds consist of those funds in possession of the inmate taken into custody, money received on behalf of the inmate during their incarceration period, or bond monies received for inmates who have been taken into custody due to a warrant issued in another county. We were unable to locate any clear guidance as to how the funds shall be held, but due to the business purpose of the account and the fact that amounts are received and disbursed on a daily basis, we believe this account is properly decentralized.

Findings:

None other than indicated in the general comments section.

Recommendations:

None other than indicated in the general comments section.

Nuclear Safety Grant (Bal. \$49,306):

This account was established to facilitate receipts and disbursements for the Nuclear Safety Grant.

Findings:

We acquired the Nuclear Safety Grant agreement and noted that the grant funds are only required to be accounted separately but not held in a separate checking account as is currently the status. This is typical requirement many other grants that currently held in the custody of the Treasurer.

Recommendations:

We recommend that the Nuclear Safety Grant checking account be closed and the funds be turned over to the County Treasurer. Accounting for this grant can be accomplished in the project accounting module in the County's primary general ledger system efficiently and reliably.

Sheriff Emergency Response Team (Bal. \$4,190):

This account was established to maintain the receipts and disbursements of the Sheriff Emergency Response Team program. The balance is very low in this account and no additional revenue has been received in the audit period.

Findings:

There appears to be no authoritative guidance or business purpose which requires this account to be decentralized under the Sheriff.

Recommendations:

Assuming no additional revenue associated with the program are expected to be received, we recommend that the Sheriff Emergency Response Team checking balance be spent down to zero and then the account be closed. If additional resources are anticipated to be received in the future, we recommend the current balance be turned over to the County Treasurer and the activity for the program be accounted for in a separate fund within the County's primary general ledger system.

Imprest Account (Bal. \$6,292):

This account is utilized to perform a high volume of civil process refunds and make small purchases typical of a petty cash account. The account is reimbursed through the standard monthly process using a monthly voucher issued by the Sheriff's department. The activity is entered by line item into MUNIS. The voucher contains all the support attached. The Counties Code within the Illinois Compiled Statutes permits the Sheriff to maintain a petty cash account. Additionally, the business purpose of this account appears to support that the account remain decentralized.

Findings:

None other than indicated in the general comments section.

Recommendations:

None other than indicated in the general comments section.

CJC Fitness (Bal. \$9,270):

This is an account used to hold donations for the employee's fitness center. The donations will be used to purchase fitness equipment. Additional revenue is being received from commissions on vending machine sales within the Sheriff's Office.

Findings:

There appears to be no authoritative guidance or business purpose which requires this account to be decentralized under the Sheriff.

Recommendations:

We recommend these resources be turned over to the County Treasurer's pooled cash account and a separate accounting fund be initiated in the County's general ledger system to account for the revenues and disbursements of the activity.