



# **OFFICE OF THE AUDITOR**

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**DENVER SHERIFF DEPARTMENT  
INMATE TRUST FUND  
AND  
INMATE WELFARE RECREATION FUND  
FINANCIAL COMPLIANCE AUDIT  
AUGUST 2009**

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*Dennis J. Gallagher*  
*Auditor*



# City and County of Denver

201 West Colfax Ave., Dept. 705 • Denver, Colorado 80202 • 720-913-5000, FAX 720-913-5247  
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Dennis J. Gallagher  
Auditor

August 20, 2009

Mr. William R. Lovingier  
Director of Corrections and Undersheriff  
Denver Sheriff Department  
City and County of Denver

Dear Mr. Lovingier:

Attached is the Auditor's Office Audit Services Division's financial compliance audit report of the Inmate Trust Fund and Inmate Welfare Recreation Fund. The audit was for the period January 1, 2007 through December 31, 2007. The purpose of the audit was to determine if the Denver Sheriff Department properly collected and administered inmates' funds and whether internal controls in place were adequate.

The audit revealed reportable weaknesses related to financial misstatements, poor internal controls, and lack of adequate contract administration. These weaknesses are disclosed in detail within the accompanying report.

If you have any questions, please contact Kip Memmott, Director of Audit Services, at 720-913-5029.

Sincerely,

Dennis J. Gallagher  
Auditor

DJG/ect

cc: Honorable John Hickenlooper, Mayor  
Honorable Members of City Council  
Members of Audit Committee  
Ms. Kelly Brough, Chief of Staff  
Mr. Claude Pumilia, Chief Financial Officer  
Mr. David Roberts, Chief Services Officer  
Mr. David Fine, City Attorney  
Ms. Lauri Dannemiller, City Council Executive Staff Director  
Ms. Beth Machann, Controller  
Mr. Alvin LaCabe, Manager of Safety

*To promote open, accountable, efficient and effective government by performing impartial reviews and other audit services that provide objective and useful information to improve decision making by management and the people.  
We will monitor and report on recommendations and progress towards their implementation.*

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*Dennis J. Gallagher*  
Auditor

## AUDITOR'S REPORT

We have completed a financial compliance audit of the Inmate Trust Fund and Inmate Welfare Recreation Fund. The purpose of the audit was to determine whether the Denver Sheriff Department properly collected and administered inmates' funds and whether internal controls in place were adequate. This audit was included in the Auditor's Office Audit Services Division's Annual Audit Plan and is authorized pursuant to the City and County of Denver Charter, Article V, Part 2, Section 1, *General Powers and Duties of Auditor*. We conducted our audit in accordance with generally accepted government auditing standards.

The audit revealed weaknesses related to financial misstatements, poor internal controls, and lack of adequate contract administration.

We extend our appreciation to the personnel who assisted and cooperated with us during the audit.

Audit Services Division

A handwritten signature in black ink, appearing to read "K. Memmott".

Kip R. Memmott, MA, CGAP, CICA  
Director of Audit Services

Date: August 20, 2009

Staff: Mike Widner, CICA, Audit Supervisor  
Rebecca Corral, CFE, Senior Internal Auditor  
Manijeh Taherynia, CPA, CFE, Senior Internal Auditor

*To promote open, accountable, efficient and effective government by performing impartial reviews and other audit services that provide objective and useful information to improve decision making by management and the people.  
We will monitor and report on recommendations and progress towards their implementation.*

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**INMATE TRUST FUND AND INMATE WELFARE RECREATION FUND  
EXECUTIVE SUMMARY  
FOR THE PERIOD JANUARY 1, 2007 THROUGH DECEMBER 31, 2007**

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This summary highlights the findings of the financial compliance audit of the Inmate Trust Fund (ITF) and the Inmate Welfare Recreation Fund (IWRF). The Findings and Recommendations section of the report beginning on page 8 further describes these issues in detail. The responses from the Denver Sheriff Department (DSD) to these findings are contained in Exhibit A.

**Finding I – Non-Compliance with GAAP and City Charter Caused Significant Financial Misstatements**

Audit work determined DSD did not maintain the fund's accounting records in accordance with Generally Accepted Accounting Principles (GAAP), nor did they abide by the City Charter as it relates to usage of fund monies. This non-compliance resulted in significant financial misstatements including unrecorded liabilities to the general fund of approximately \$185,461 and expenditures of \$28,839 being recorded in the wrong accounting period. We recommend DSD implement proper accounting procedures and recognize and reimburse the general fund for the identified liability.

**Finding II – Lack of Segregation of Duties, Internal Controls Increases Risks of Misstatements and Fraud**

Audit work revealed a lack of segregation of job duties for a key function, a failure to deposit fund commission checks in a timely manner, and inadequate controls over the funds' assets. Additionally, we were unable to verify or reconcile the balance of unclaimed funds due to the IWRF. All of these problematic conditions increase the risk of financial misstatements and fraud. We recommend DSD implement segregation of duties and strengthen internal controls over assets.

**Finding III – Poor Control Environment For Fund Expenditures Lead to Several Negative Outcomes**

Audit work determined that DSD's poor control environment over fund expenditures lead to expenditures being approved without supporting or shipping documentation, numerous failures to pay invoices by due dates, and expending fund monies for purchases that were not for the benefit of inmates. We recommend DSD implement policies and procedures to address weakness in the purchases and expenditures process.

**Finding IV – Lack of Proper Contract Administration Practices Resulted in Several Negative Impacts**

Audit work revealed a lack of effective contract administration practices by DSD which resulted in revenue underpayments and overcharges for merchandise by Vend One. We also identified questionable payments to several vendors. Additionally, we noted contracts were not being processed in accordance with Executive Order No. 8. We recommend DSD review the current contracts for propriety and accuracy and comply with Executive Order No. 8.

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**INMATE TRUST FUND AND INMATE WELFARE RECREATION FUND  
BACKGROUND, SCOPE, OBJECTIVE AND METHODOLOGY  
FOR THE PERIOD JANUARY 1, 2007 THROUGH DECEMBER 31, 2007**

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**Background**

The purpose of the Inmate Trust fund (ITF) is to hold inmates' funds in trust for use by inmates to purchase food, drink, personal hygiene items, and to pay other charges. When offenders are arrested, they are taken to the Pre-arraignment Detention Facility (PADF). PADF processes over 48,000 prisoners per year and is a short-term holding facility for prisoners awaiting court judgment. All cash, money orders, and other jurisdiction checks, and other property are removed from prisoners during the booking process. The prisoner is assigned an inmate identification number and a trust account is created in the Keefe Commissary Network (KCN) software. The value of the confiscated cash, money orders, and checks are entered into the prisoner's trust account.

If a prisoner is released from PADF on bond or for another reason, the balance of funds on the trust account are refunded by check to the inmate through the KCN system. Inmates who are not released are transferred to the Denver County Jail to await trial or serve their sentence. Once transferred to the jail, inmates are allowed to order commissary items such as snacks, personal hygiene items, phone cards, pop tokens, and laundry tokens. Once orders are placed, the inmates' individual accounts are debited for the cost of the orders. Other charges to inmates' accounts include cost of medical services, housing fees for inmates in the work release program, lost identification cards, and other charges. Keefe sales are accounted for on the KCN system.

Additional funds to be used by inmates for purchases can be placed on inmate accounts by credit card through the internet, wire transfers, money orders, and a kiosk which accepts cash. When inmates are released or transferred from the jail, the balance of the account is refunded by check. The inmate is required to either cash the check or request reimbursement within two years from the date of release or forfeit claim to the funds. Unclaimed funds in the Inmate Trust fund are required to be remitted to the Inmate Welfare Recreation fund after the two year claim period expires.

The purpose of the Inmate Welfare Recreation fund (IWRP) is to account for the commissions and profits generated from commissary sales and other revenue sources and expend those funds for the health, recreation, and welfare of the inmates. Commissions are collected from Keefe Commissary sales, wire transfer transactions, and vending machine sales. Profits are generated from sales of phone cards, pop tokens, and laundry tokens to inmates. The income and expenses of the fund do not represent revenue or expenses of City money and, as such, the operation and administration of the fund should not be paid by the City. Expenditure of the funds is restricted to goods and services for health, recreation, legal research resources, laundry services, vending machines, video and film presentations, and other educational, health, or welfare related purposes.

The ITF is accounted for as a fiduciary agency fund which held in trust approximately \$5.3 million in inmate deposits and administered approximately \$5.3 million in payments to inmates and other charges in 2007. The IWRP is accounted for as a proprietary enterprise fund which had operating revenues of approximately \$2.2 million and expenses of approximately \$2 million. Both funds are required to maintain books and records on the accrual basis of accounting where revenue is recognized as earned and expenses are recognized when liabilities are incurred.

**Scope**

The audit of the Denver Sheriff Department Inmate Trust fund and Inmate Welfare Recreation fund (PeopleSoft fund/org. 56951/3532000) covered the period of January 1, 2007 through December 31, 2007. The scope of the audit was focused on determining whether the funds' financial statements were fairly stated in accordance with City rules and regulations and adequate internal control and accounting processes were in place.

**Objective**

The objective of the audit was to determine whether the Denver Sheriff Department properly collected and administered inmates' funds, expended profits for the benefits of inmates, and whether internal controls and accounting processes were adequate in compliance with City rules and regulations.

**Methodology**

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

- Review of internal controls;
- Testing of income statement, balance sheet, and fiduciary fund accounts;
- Testing of individual inmate accounts and the associated ledger balance;
- Discussions with management;
- Determination of compliance with written policies and procedures;
- Determination of compliance with City fiscal rules, executive orders, and other regulations;
- Testing of computer processed data; and
- Revenue and commissions due/payable was audited under the Keefe Commissary revenue contract audit.

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**INMATE TRUST FUND AND INMATE WELFARE RECREATION FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE PERIOD JANUARY 1, 2007 THROUGH DECEMBER 31, 2007**

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**Finding I – Non-Compliance with GAAP and City Charter Caused Significant Financial Misstatements**

City rules and regulations which govern the ITF and IWRF state, “A system of bookkeeping and internal controls shall be established in accordance with generally accepted accounting principles (GAAP) to provide an accurate record of all transactions related to the trust.” However, the Inmate Welfare Recreation fund (IWRF) accounting records are being maintained on a cash basis which is a comprehensive basis of accounting other than GAAP. As a result, the IWRF’s external auditors prepare the necessary accounting adjustments to convert cash basis financial statements to GAAP at year end. Since the audit is conducted on a sample basis, not all accounting adjustments are detected leaving account balances misstated. Further, it should be noted that external auditors should not be preparing the IWRF’s financial statements.

Additionally, Generally Accepted Government Audit Standards (GAGAS) require auditors to design the audit to provide reasonable assurance of detecting material misstatements resulting from noncompliance with laws, rules, and regulations. It is management’s responsibility to identify and inform the external auditors of applicable laws, rules, and regulations with which noncompliance would be material to the financial statements. However, DSD did not inform the external auditors of this requirement and the IWRF’s external auditors subsequently did not conduct their audit in accordance with GAGAS. As a result, our audit work identified several accounting and non-compliance issues as follows:

***IWRF Owes General Fund for Administrative Expenses*** – City rules and regulations state expenses of operation and administration of the trust shall be paid for exclusively out of income from the trust and no city general fund monies should be utilized in the operation and administration of the trust. All payroll expenses including salary, benefits, and income taxes paid through the general fund must be reimbursed with IWRF fund monies. However, audit work determined DSD did not reimburse the general fund the administrative expenses related to payroll and owes the general fund an estimated total of \$185,461 as follows:

- DSD failed to calculate and remit payroll expenses for the commissary officer, the staff accountant, and any other employees involved in the operation and administration of the funds in 2006. As a result, estimated IWRF liability to the general fund is at least \$134,424 for this year.
- DSD failed to include the employer portion of Medicare taxes paid in their calculation of the commissary officer’s payroll for 2007. As a result, the IWRF underpaid the general fund a total of \$1,037.
- DSD failed to calculate and reimburse the general fund payroll expenses of the staff accountant who maintains the books, records, and generally administers the funds for 2007. As a result, the IWRF owes an additional estimated \$50,000 to the general fund.

***Expenditures Recorded in Improper Accounting Period*** – We identified \$28,839 in expenditures that were improperly recorded in 2007 because they were actually prior period expenses:

- An invoice for \$25,722 for GED services rendered from January 1, 2005 to June 30, 2005.
- An invoice for \$592 for a copier lease for the period September 2006 through November 2006.
- An invoice for \$1,920 for a laundry machine lease for the service period of February 2006 through January 2007. The expense recorded for 2007 should have been \$160 resulting in \$1,760 in overstated expenses
- An invoice totaling \$1,485 for maintenance covering the service period August 2006 through July 2007. The actual amount recorded for 2007 should have been \$866 resulting in \$618 in overstated expenses.
- Two invoices totaling \$147 for repair costs which were incurred in 2006.

***Lack of Internal Controls Over Inventory Caused Misstatement of Assets*** – Audit work revealed DSD did not perform physical inventory counts for phone cards, pop or laundry tokens throughout the audit period which are assets of the IWRF. Further, we noted DSD does not maintain a general ledger account to records these assets. Instead, only the cost of merchandise was being recorded in the general ledger in contradiction to GAAP. Since DSD did not maintain any inventory records during the audit period or prior years, we were unable to establish the amount of inventory assets to be recorded.

### **Recommendations**

1. We recommend DSD reimburse the general fund for the commissary officer's and staff accountant's salaries due for 2006. Additionally, DSD should identify other employees who are involved in the operation and administration of the fund and devise a method of tracking their hours and allocating the appropriate salaries to the annual general fund reimbursement.
2. We recommend DSD institute policies and procedures which address proper proprietary fund accounting procedures. The IWRF's books and records should be maintained on a GAAP basis in order to accurately reflect the transactions and account balances of the fund. By maintaining appropriate books and records, the IWRF could reduce the workload of the external auditors and, consequently, save on audit fees charged the fund. We also recommend DSD review City Charter provisions which govern the Trust funds and fully disclose applicable provisions to the external auditors for future engagements.
3. We recommend DSD perform and physical inventory of phone cards and pop and laundry tokens and establish inventory accounts for each category of merchandise. Further, once the inventory accounts are established, we recommend DSD implement policies and procedures to

ensure daily tracking of inventory amounts, sales, and ending balances to mitigate the risk of inventory shrinkage. Regular spot audits should be conducted by the staff accountant to ensure balances are accurate and any shrinkage recorded.

**Finding II – Lack of Segregation of Duties and Internal Controls Increases Risks of Misstatements and Fraud**

Audit work revealed a lack of segregation of job duties for a key function, a failure to deposit fund commission checks in a timely manner, and inadequate controls over the fund's fixed assets. Additionally, we were unable to verify or reconcile the balance of unclaimed funds due to the IWRP. All of these problematic conditions increase the risk of financial misstatements and fraud.

***Lack of Segregation of Duties*** – The staff accountant maintaining the fund has control over all cash receipts, disbursements and receives and reconciles bank statements. As the staff accountant's job duties are not properly segregated, it is important to have review processes in place as compensating controls. However, audit work determined 8 out of 12 (66%) IWRP savings account bank statement reconciliations were not performed or reviewed by management during the year 2007. We also noted 2 of 12 (17%) ITF checking account bank reconciliations were not performed within the quarter or in the month following as required by Fiscal Rule 2.4. The lack of effective internal controls increases the risk that cash could be misappropriated.

***Untimely Deposit Practices*** – Audit work determined that DSD did not date stamp any of the commission check payments received for the audit period. As a result, the date of receipt and subsequent date of deposit by the Agency could not be determined. However, the timing difference between the check issue date and the date of deposit indicates that 37 of the 54 (68%) check payments tested may not have been made by the following business day. Additionally, we found 2 of 4 (50%) cash deposits were not made by the following business day as required by Fiscal Rule 2.6.

***Duplicate Payments Indicate Weak Accounting Controls*** – Audit work revealed 6 instances where DSD issued checks twice to inmates for the same amount. In each of these cases one check was marked as void in the Keefe system. However, stop payments were not placed on these checks. As a result, the inmates cashed both checks resulting in duplicate payments in the amount of \$873.

***Lack of Internal Controls Over Assets Caused Misstatement*** – Audit work determined the following issues related to asset management:

- Of the 22 computer and peripheral assets sampled, 9 (41%) could not be found.
- 21 out of the 22 assets tested (95%) did not have asset tags making it difficult to reconcile IWRP assets to City asset listings.
- 7 out of the 22 assets (32%) tested were in a location other than the one listed on the asset inventory list making it difficult to locate the assets.

- 3 printers and a server have been deleted from inventory and were not removed from the list. Additionally, one item on the list was not a fixed asset. We also located 3 assets which were not included on the inventory list.

Further, audit work determined that DSD was not conducting yearly physical fixed asset inventory as required by Fiscal Rule 4.2. As a result of these issues, we were unable to reconcile the general ledger balance to the physical inventory or the asset inventory list. However, since a substantial portion of the assets were missing it is likely that the fixed asset account is overstated.

***Lack Of Internal Controls Over Unclaimed Funds*** – The Keefe accounting system was implemented in October of 2006. Prior to 2006, all transactions were recorded in a different accounting system. During the conversion from the old system to Keefe, two years of the prior system’s data was placed into one general ledger account called “Prior to Keefe.” The data did not contain check numbers making it virtually impossible to independently verify checks older than two years that should have been marked as “unclaimed” and transferred to the IWRP. Additionally, we noted the balance in the ITF general ledger at 2007 year end was \$10,848 while the corresponding IWRP receivable ledger balance was \$53,675.

### **Recommendations**

4. We recommend DSD review their internal control structure over the IWRP and implement proper segregation of duties such as having the bank statements delivered to and reconciled by a senior accountant. Additionally, management should review all bank reconciliations to ensure accuracy and propriety of cash account balances.
5. We recommend DSD implement policies and procedures which require all deposits over \$500 be deposited by the following business day and deposits less than \$500 are deposited weekly in accordance with Fiscal Rule 2.6. Additionally, policies and procedures should be implemented to ensure there is supervisory review of all deposits and that all incoming checks are logged and date stamped.
6. We recommend DSD implement policies and procedures to ensure timely issuance of stop payments on duplicate issued checks to inmates. Additionally, DSD management should identify and resolve any other instances involving duplicate checks being issued and cashed.
7. We recommend DSD perform a complete physical inventory of assets and correct the general ledger balance. Additionally, all assets should be tagged as IWRP assets and actual locations, as well as correct model and serial numbers, should be determined. DSD should work with Technology Services to devise a communication solution for notifying the department when assets are replaced, deleted, or moved. We also recommend DSD maintain a separate file of invoices for assets allowing for balances to be reconstructed and conduct a physical inventory at least annually.
8. We recommend DSD strengthen internal controls over unclaimed funds by identifying and reconciling unclaimed funds amounts in the “Prior to Keefe” account and requesting the

subsequent reimbursement from the ITF. Additionally, unclaimed funds should be identified on a monthly basis, marked, and transferred to the IWRF.

**Finding III – Poor Control Environment For Fund Expenditures Lead to Several Negative Outcomes**

Audit work determined that DSD's poor control environment over fund expenditures lead to expenditures being approved without supporting or shipping documentation, numerous failures to pay invoices by due dates, and expending fund monies for purchases that were not for the benefit of inmates.

***Misuse of Inmate Funds*** – Audit work determined that IWRF funds were inappropriately used to provide a \$3,160 payroll loan to a contractor who provides training to DSD employees. This contractor was paid through the City payroll system and the services provided were completely unrelated to the inmates or the fund. City Charter states, "Earnings on the trust may be utilized for acquisition of goods and services pertaining to the common recreation, health, safety, and welfare of the inmates..." Although the contractor subsequently reimbursed the IWRF for the loan, the payroll loan was in violation of city rules and a misuse of IWRF funds.

***Lack of Internal Controls Over Expenditures*** – Audit work revealed the following exceptions in our test of expenditures for the year 2007:

- Expenditures equaling \$13,635, representing 6.1% of the sample, lacked supporting documentation such as a receipt or an invoice to substantiate the expense.
- 19 of the 118 invoices tested (16%) did not have shipping documents and/or receiving logs as proof that orders were received.
- DSD did not date stamp any of the invoices tested to show date of receipt or keep a log of invoices. Additionally, 37 of the 118 invoices tested, representing (31%) of the sample, were not paid by the invoice due date with payment dates ranging from 1 to 97 days after invoice due dates.
- IWRF funds were used to purchase a total of 12 pressure washers equaling \$2,160. However, only 10 were approved for purchase and the documentation did not describe how this purchase was for the health, welfare, recreation, or benefit of the inmates.
- Our testing of the office supplies expenditure account revealed 6 of the 15 invoices (40%) did not contain documentation explaining how the purchase was for the benefit of inmates or where the items would be used. Additionally, all expenditures are being expensed as received. However, GAAP requires office supplies to be expensed as they are consumed.

### **Recommendations**

9. Although DSD does not initiate or approve most purchase orders, the accounts payable function has the obligation to ensure all purchases and expenses have proper documentation, approvals, and are for the health, welfare, and benefit of the inmates. We recommend DSD review current policies and procedures and address these areas of weakness.

10. We recommend DSD implement policies and procedures which require all incoming invoices to be logged, date stamped, and paid within the due dates. An inventory of office supplies should be maintained and expensed as consumed in accordance with enterprise fund accounting principles. Additionally, receiving logs and other proof of actual receipt of purchases should be required and maintained.

### **Finding IV – Lack of Proper Contract Administration Practices Resulted in Several Negative Effects**

Audit work revealed a lack of effective contract administration practices by DSD which resulted in revenue underpayments and overcharges for merchandise by Vend One. We also identified questionable payments to several vendors. Additionally, we noted contracts were not being processed in accordance with Executive Order No. 8.

***Lack of Proper Monitoring of Vend One Caused Improper Revenue Reporting and Overcharges to the IWRF*** – Audit work determined revenue reported by the vendor during the three sample months was understated by total amount of \$1,020. The underreported sales resulted in underpayment of sales commission to IWRF by a total amount of \$204 for the sample months, which exceeded materiality levels. As a result, we planned to expand testing to cover the entire audit period to determine the extent of underreported revenue and commissions due. However, the vendor refused to provide us with the additional records and information required to complete the expanded testing. Due to the scope limitation resulting from the vendor's refusal to provide records, we were unable to determine the total amount of underpayments during the audit period.

The contract between the IWRF and Vend One does not contain any provisions regarding the treatment of underpayments by the vendor, which is a significant flaw. Further, the contract between IWRF and Vend One requires payment to the vendor to be based on the number of beverages vended with each beverage equaling two tokens. However, the vendor invoiced the IWRF based on the number of tokens delivered rather than reports of the actual number of tokens collected from the machines, which could be readily generated from the vendor's system. Audit work determined the total number of tokens billed by the vendor for 9 out of 13 invoices during the audit period exceeded the number of tokens actually collected by 4,618 tokens. As a result, DSD was overcharged \$2,309 for tokens not actually received. Due to the scope limitation imposed by the vendor's refusal to provide the remaining reports of tokens collected, we were unable to determine the total amount of overpayments to the vendor for the entire audit period.

*Dual Funding Sources Raise Questions About Contracts* – DSD did not provide a contract or agreement for The Learning Source, a vendor providing GED services to inmates. These services are paid for using fund monies. However, the City’s Department of Safety does have a contract with this company who pays for their services through the Life Skills grant funding equaling \$46,500 per year for providing GED testing services. The Learning Source was paid \$52,076 from the IWRF for providing essentially the same services to these inmates during 2007.

Further, Charter provisions specifically exclude Community Corrections inmates as part of the IWRF. However, the IWRF made payments for services rendered by Turnabout Inc., to these inmates in 2007 equaling \$18,000. Additionally, we noted Turnabout, Inc. also receives grant funds equaling \$141,052 per year for providing essentially the same services to inmates through the Life Skills federal grant.

### **Recommendations**

11. We recommend DSD obtain the remaining records from Vend One and determine the extent of the underreported revenue and overcharges for tokens. We recommend DSD invoice and collect all amounts due from Vend One. Additionally, we recommend DSD work in conjunction with the City Attorney’s Office to correct the Vend One contract language deficiencies in order to clearly outline the responsibilities of both parties.

12. We recommend DSD review the services provided by The Learning Source and determine whether there is overlap of funding sources and related expenditures. Additionally, we recommend DSD no longer fund Turnabout Inc. for services provided to Community Corrections inmates as this is in violation of City Charter provisions. We also recommend DSD follow the contract administration procedures as outlined in Executive Order No. 8 in order to avoid further contract issues.



JOHN W. HICKENLOOPER  
MAYOR

# CITY AND COUNTY OF DENVER

DEPARTMENT OF SAFETY

DENVER SHERIFF DEPARTMENT  
DENVER COUNTY JAIL  
P.O. BOX 1108  
DENVER, COLORADO 80201

## *Audit Response Letter*

July 14, 2009

Mr. Kip R. Memmott, CGAP, CICA

Director of Audit Services  
Office of the Auditor  
City and County of Denver  
201 West Colfax Avenue, Dept. 705  
Denver, Colorado 80202

Dear Mr. Memmott:

The Office of the Auditor has conducted a financial compliance audit of the Inmate Trust Fund and Inmate Welfare Recreation Fund for the audit period January 1, 2007 through December 31, 2007.

This memorandum provides a written response for each reportable condition noted in the Auditor's Report final draft that was sent to us on June 18, 2009. This response complies with Section 20-276 (b) of the Denver Revised Municipal Code (DRMC).

### **AUDIT FINDING 1: Non-Compliance with GAAP and City Charter Caused Significant Financial Misstatements**

**RECOMMENDATION 1:** We recommend DSD reimburse the general fund for the commissary officer's and staff accountant's salaries due for 2006. Additionally, DSD should identify other employees who are involved in the operation and administration of the fund and devise a method of tracking their hours and allocating the appropriate salaries to the yearly general fund reimbursement.

- **RESPONSE/ACTION PLAN 1: DSD has identified that 80% of the staff accountant's time and 50% of the commissary officer's time is dedicated to the IWRF. DSD is currently and will continue allocating this portion of salaries and reimbursing the general fund quarterly. Additionally, we agree to reimburse this portion of both salaries due for 2006 to the general fund.**

State your agreement or reason for disagreement with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of primary individual responsible for implementation
Agree with Recommendation	11/2/2009	Mohammad Dahleh 720-865-4107

**RECOMMENDATION 2:** We recommend DSD institute policies and procedures which address proper proprietary fund accounting procedures. The IWRF’s books and records should be maintained on a GAAP basis in order to accurately reflect the transactions and account balances of the fund. By maintaining appropriate books and records, the IWRF could reduce the workload of the external auditors and, consequently, save on audit fees charged the fund. We also recommend DSD review City Charter provisions which govern the Trust funds and fully disclose applicable provisions to the external auditors for future engagements.

- **RESPONSE/ACTION PLAN 2:** Whereas DSD annually adjusted the IWRF financial statements to conform to the accrual based accounting method required for proprietary funds; we agree, per the auditor’s recommendation, to record expenses on the accrual based method at the time of the transaction. DSD will also ensure that future audit engagement letters include GAGAS and City Ordinance audit compliance.

State your agreement or reason for disagreement with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of primary individual responsible for implementation
Agree with Recommendation	11/2/2009	Mohammad Dahleh 720-865-4107

**RECOMMENDATION 3:** We recommend DSD perform and physical inventory of phone cards and pop and laundry tokens and establish inventory accounts for each category of merchandise. Further, once the inventory accounts are established, we recommend DSD implement policies and procedures to ensure daily tracking of inventory amounts, sales, and ending balances to mitigate the risk of inventory shrinkage. Regular spot audits should be conducted by the staff accountant to ensure balances are accurate and any shrinkage recorded.

- **RESPONSE/ACTION PLAN 3:** DSD will implement new policies and procedures to ensure daily tracking of inventory amounts, sales, and ending balances. Also, we will perform a physical inventory of phone cards, pop/laundry tokens and establish inventory accounts for each category of merchandise. The staff accountant will perform regular spot audits to ensure balances are accurate and any shrinkage recorded.

State your agreement or reason for disagreement with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of primary individual responsible for implementation
Agree with Recommendation	11/2/2009	Mohammad Dahleh 720-865-4107

**AUDIT FINDING 2: Lack of Segregation of Duties, Internal Controls Increases Risks of Misstatements and Fraud**

**RECOMMENDATION 4:** We recommend DSD review their internal control structure over the IWRF and implement proper segregation of duties such as having the bank statements delivered to and reconciled by a senior accountant. Additionally, management should review all bank reconciliations to ensure accuracy and propriety of cash account balances.

- **RESPONSE/ACTION PLAN 4:** The IWRF Fund is currently managed by a Staff Accountant. Additionally, monthly measurement reports and bank reconciliations are reviewed by management on a timely basis. We do agree, for proper segregation of duties, to have the Senior Accountant prepare the monthly bank reconciliations.

State your agreement or reason for disagreement with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of primary individual responsible for implementation
Agree with Recommendation	11/2/2009	Mohammad Dahleh 720-865-4107

**RECOMMENDATION 5:** We recommend DSD implement policies and procedures which require all deposits over \$500 be deposited by the following business day and deposits less than \$500 are deposited weekly in accordance with Fiscal Rule 2.6. Additionally, policies and procedures should be implemented to ensure there is supervisory review of all deposits and that all incoming checks are logged and date stamped.

- **RESPONSE/ACTION PLAN 5:** DSD has begun date stamping and ensuring management review of all deposits. Additionally, we will ensure that all deposits will be deposited in accordance with Fiscal Rule 2.6. Mandating that deposits over \$500 are deposited by the following business day and deposits less than \$500 are deposited weekly.

State your agreement or reason for disagreement with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of primary individual responsible for implementation
Agree with Recommendation	11/2/2009	Mohammad Dahleh 720-865-4107

**RECOMMENDATION 6:** We recommend DSD implement policies and procedures to ensure timely issuance of stop payments on duplicate issued checks to inmates. Additionally, DSD management should identify and resolve any other instances involving duplicate checks being issued and cashed.

- **RESPONSE/ACTION PLAN 6: DSD is now electronically voiding checks through the new Single Point on line system and has implemented new policies/procedures with this new system regarding stop payments. This will eliminate any possibility of duplicate checks being issued.**

State your agreement or reason for disagreement with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of primary individual responsible for implementation
Agree with Recommendation	11/2/2009	Mohammad Dahleh 720-865-4107

**RECOMMENDATION 7:** We recommend DSD perform a complete physical inventory of assets and correct the general ledger balance. Additionally, all assets should be tagged as IWRF assets and actual locations, as well as correct model and serial numbers, should be determined. DSD should work with Technology Services to devise a communication solution for notifying the department when assets are replaced, deleted, or moved. We also recommend DSD maintain a separate file of invoices for assets allowing for balances to be reconstructed and conduct a physical inventory at least annually.

- **RESPONSE/ACTION PLAN 7: Whereas TSS is responsible for all computer equipment per an interdepartmental user agreement, a better communication process will be established between DSD & TSS for more accountability when TSS moves/repairs/replaces these assets. DSD will perform a complete physical inventory of IWRF assets and correct the Quick book’s general ledger balance on an annual basis. We will also tag each asset as an IWRF asset and ensure their correct model and serial numbers. Additionally, we will maintain a separate file of invoices for all IWRF assets.**

State your agreement or reason for disagreement with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of primary individual responsible for implementation
Agree with Recommendation	12/31/2009	Mohammad Dahleh 720-865-4107

**RECOMMENDATION 8:** We recommend DSD strengthen internal controls over unclaimed funds by identifying and reconciling unclaimed funds amounts in the “Prior to Keefe” account and requesting the subsequent reimbursement from the ITF. Additionally, unclaimed funds should be identified on a monthly basis, marked, and transferred to the IWRF.

- **RESPONSE/ACTION PLAN 8: During the data conversion from Canteen to Keefe (Oct 2006), Keefe was unable to record the outstanding check number in each inmate’s account. DSD**

manually loaded these outstanding checks into an Excel file and voided the checks that were \$5 or more in value. DSD will complete this manual process and reimburse the IWRF all funds due. The staff accountant currently identifies and reconciles unclaimed funds electronically on a monthly basis. Additionally, the unclaimed funds are being transferred to the IWRF monthly using Keefe.

State your agreement or reason for disagreement with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of primary individual responsible for implementation
Agree with Recommendation	11/2/2009	Mohammad Dahleh 720-865-4107

**AUDIT FINDING 3: Poor Control Environment for Fund Expenditures Lead to Several Negative Outcomes**

**RECOMMENDATION 9:** Although DSD does not initiate or approve most purchase orders, the accounts payable function has the obligation to ensure all purchases and expenses have proper documentation, approvals, and are for the health, welfare, and benefit of the inmates. We recommend DSD review current policies and procedures and address these areas of weakness.

- **RESPONSE/ACTION PLAN 9:** DSD requires that items ordered out of the IWRF have a Purchase Request Form filled out prior to a purchase. This form is included as part of the invoice documentation. Additionally, for immaterial, repetitive IWRF Purchases, DSD has in place a Purchase Authorization Letter documenting pre-approved vendor purchases. DSD will also improve its purchase process so that all purchases have the proper approval.

State your agreement or reason for disagreement with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of primary individual responsible for implementation
Agree with Recommendation	11/2/2009	Mohammad Dahleh 720-865-4107

**RECOMMENDATION 10:** We recommend DSD implement policies and procedures which require all incoming invoices to be logged, date stamped, and paid within the due dates. An inventory of office supplies should be maintained and expensed as consumed in accordance with proprietary fund accounting principles. Additionally, receiving logs and other proof of actual receipt of purchases should be required and maintained.

- **RESPONSE/ACTION PLAN 10:** DSD is currently date stamping and paying all invoices within the due date and has never paid late fees. DSD will follow the Consumption Method of accounting to expense and maintain office supplies as they are consumed where these expenses are material in nature. DSD will implement, when a packing slip is not received, a substitute receipt to verify that all goods that have been received have been paid for.

State your agreement or reason for disagreement with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of primary individual responsible for implementation
Agree with Recommendation	11/2/2009	Mohammad Dahleh 720-865-4107

**AUDIT FINDING 4: Lack of Proper Contract Administration Practices Resulted in Several Negative Effects**

**RECOMMENDATION 11:** We recommend DSD obtain the remaining records from Vend One and determine the extent of the underreported revenue and overcharges for tokens. We recommend DSD invoice and collect all amounts due from Vend One. Additionally, we recommend DSD work in conjunction with the City Attorney’s Office to correct the Vend One contract language deficiencies in order to clearly outline the responsibilities of both parties.

- **RESPONSE/ACTION PLAN 11:** DSD will do an RFP for a new contract with a Soda/Snack vendor so that a proper audit clause is included and so that there is clearer commission calculation language. Additionally, DSD will ensure proper calculations on all commission checks and periodically audit the vendor.

State your agreement or reason for disagreement with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of primary individual responsible for implementation
Agree with Recommendation	11/2/2009	Mohammad Dahleh 720-865-4107

**RECOMMENDATION 12:** We recommend DSD review the services provided by The Learning Source and determine whether there is overlap of funding sources and related expenditures. Additionally, we recommend DSD no longer fund Turnabout Inc. for services provided to Community Corrections inmates as this is in violation of City Charter provisions. We also recommend DSD follow the contract administration procedures as outlined in Executive Order No. 8 in order to avoid further contract issues.

- **RESPONSE/ACTION PLAN 12:** The Life Skills Grant funded GED Classes for “sentenced misdemeanor inmates” per City Contract CE72021. The IWRF funded all other inmate GED classes including felons and pre-sentenced inmates. Currently, GED services are provided by The Learning Source through City Contract #CE91128 and there is not an overlap of funding sources. DSD will engage in an IWRF ordinance language change to allow for the job search/placement services of Turnabout for Community Corrections inmates. This service is critical to the success of the Community Correction Program.

State your agreement or reason for disagreement with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of primary individual responsible for implementation

<b>Partially agree with new ordinance change Disagree with overlap of funding sources</b>	<b>11/2/2009</b>	<b>Mohammad Dahleh 720-865-4107</b>
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Please contact **Mark Valentine** at **720-865-4108** with any questions.

Sincerely,



*Mark Valentine*  
*Director of Finance*

cc: Bill Lovingier  
Chief Gary Wilson  
Chief Elias Diggins  
Mike Widner  
Rebecca Corral

Undersheriff and Director of Corrections  
Division Chief – TSP  
Division Chief – County Jail  
Internal Audit Supervisor  
Internal Audit