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Office of the City Auditor

**Audit of Sheriff's Office Canteen  
and Commissary**

Report Date: February 21, 2014

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Office of the City Auditor  
2401 Courthouse Drive, Room 344  
Virginia Beach, Virginia 23456  
757.385.5870

*"Promoting Accountability and Integrity in City Operations"*



## Office of the City Auditor

*"Promoting Accountability and Integrity in City Operations"*

Lyndon Remias, CPA, CIA  
Chris Ford, CPA

City Auditor  
Deputy City Auditor

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Office of the City Auditor  
Transmittal Letter



Date: February 21, 2014

To: Kenneth Stolle, Sheriff

Subject: Audit of Canteen and Commissary Operations

I am pleased to present the report of our audit of the Sheriff's Canteen and Commissary Operations. The results of this audit will be provided to City Council through the Audit Committee.

The objectives of our audit were to review the Sheriff's Canteen and Commissary Operations to:

- Document the processes and related internal controls and assess whether the controls are adequately designed to reduce risk to an acceptable level and if so to determine if those controls are operating effectively to prevent, detect or correct misstatements or irregularities on a timely basis.
- To determine Canteen and Commissary compliance to the Code of Virginia and the Virginia Sheriff's Accounting Manual.

Findings considered to be of insignificant risk have been discussed with management. We completed field work on January 10, 2014.

The Office of the City Auditor reports to City Council through the City's Audit Committee and is organizationally independent of all other City Departments. This report is intended solely for the information and use of the Audit Committee, City Council, the Virginia Beach Sheriff, and appropriate management within the Sheriff's Office. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We would like to thank the Sheriff's Office for their courteous and prompt assistance during our audit. The staff was receptive and excellent to work with.

If you have any questions about this report, or any audit-related issue, I can be reached at 385.5872 or via email at [lremias@vbgov.com](mailto:lremias@vbgov.com).

Respectfully submitted,

Lyndon S. Remias, CPA, CIA  
City Auditor

c: City Council Members  
Audit Committee Members  
Kenneth Stolle, Sheriff



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## **Purpose**

The purpose of our audit was to document the entire Canteen and Commissary process and related controls and assess the design and compliance of those controls. We also verified compliance with the Code of Virginia and the Virginia Sheriff's Accounting Manual.

## **Scope & Objectives**

The scope of the audit covered the Canteen and Commissary programs for the fiscal year ended June 30, 2013.

The objectives of our review were:

- To document in detail the procedures and related controls over the four programs – Inmate Canteen, Caremart Program, Fresh Favorites and Staff Dining – contained in the Canteen and Commissary bank accounts within the Sheriff's Office.
- To assess whether those controls are designed effectively to reduce risk to an acceptable level and to test the controls deemed to be designed effectively to determine if they are operating as designed.
- To determine if the Canteen/Commissary Programs are operating in compliance with the Code of Virginia and the Virginia Sheriff's Accounting Manual.

It should be noted that the Sheriff requested this audit of the Canteen/Commissary to assess its operations and the City Auditor can only audit his operations with the Sheriff's consent. We commend his good stewardship.

## **Methodology**

To accomplish our objectives, we performed the following procedures:

- Documented the background of the Canteen/Commissary programs via interviews with Sheriff Office personnel, on-line research, InSITE reports, policies and procedure documents, budgetary and other documentation.
- Through interviews, policies and procedures, walkthroughs, InSITE and Excel reports, bank statements and other documentation, documented in detail the processes and related controls of the four programs – Inmate Canteen, CareMart program, Fresh Favorites, Staff Dining – accounted for within the Canteen and Commissary bank accounts.
- Assessed the design of the controls as to whether they are adequately designed to reduce risk to an acceptable level and identified areas where the control design is weak and needs to strengthen.
- For the controls that were deemed to be adequately designed to reduce risk, we tested them to determine if they were operating as designed.



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- Documented compliance with the *Virginia Sheriff's Accounting Manual, Chapter 3 – Canteen Operations* (for the Canteen).
- Determined and documented compliance with Virginia Code section §53.1-127.1 "*Establishment of Stores in Local Correctional Facilities*".



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### **Standards**

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require 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 that the evidence obtained during this audit provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Office of the City Auditor reports to City Council through the Audit Committee and is organizationally independent of all City Departments. This report will be distributed to the City's Audit Committee, City Council, the Sheriff, and appropriate management within the Sheriff's Office. This report will also be made available to the public.



## **Background**



Beginning in July 2010, the Sheriff's Office began to transition from a traditional inmate Canteen/Commissary operation whereby services were contracted with an outside vendor, to one where the services were provided internally by the Sheriff's Office itself and all profits maintained in the Sheriff's Office. Also, if the program could be expanded and existing profits retained within the Sheriff's Office then some much needed funding could be generated at a time when other sources of funding were being reduced. The new program expanded the basic services from just snack and supply items purchased by inmates via their inmate accounts, to have four components housed in two different bank accounts (Canteen account, Commissary account). By law the Canteen Account must have a separate bank account as the net profits are required by state code to be spent for the benefit of the prisoners if the net profits were generated through the inmates accounts. Below is a very brief description (we have documented them in detail) of the various programs by the bank accounts where they are housed.

## **Canteen Bank Account**



**Canteen Program** - This is the more traditional Canteen service that used to be contracted out and is now administered by the Sheriff's Office. Inmates place orders via telephone using a pin number, and filled by supervised inmates and distributed by deputies to the various locations. The orders are accumulated by inmate via the Offender Management System. Monthly the orders/sales amounts are taken from the inmate checking account and deposited in the Canteen account. Items are bought, inventoried and issued at the canteen storeroom.

## **Commissary Bank Account**

- **Caremart** - This is an online ordering program whereby family and friends can order for inmates via credit card. The products are purchased from the Commissary account and the revenue is deposited in the Commissary account by ACH transactions.
- **Fresh Favorites** - This is a program that offers restaurant style meals to inmates through the Caremart internet site or through the inmates' account. When Fresh Favorites are purchased through the inmate accounts the Commissary account is reimbursed by the inmate account for those sales. Revenue and purchases to make the meals (by staff kitchen) go through the Commissary account. All items are procured by staff kitchen and expensed. No inventory is maintained.



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- **Late Night Snack Bags** - This is a program providing a quality bag lunch for purchase via the Caremart internet site or through the inmates' account. It is similar to Fresh Favorites in that the revenue made from purchases through the inmates' account is reimbursed to the Commissary account. The Caremart sales are entered into the Commissary account by ACH transactions.
- **Staff Dining** - This is a program that serves restaurant style meals at cost to all working staff of the Sheriff's Office in the in-house dining facility. All gross revenue is deposited in the Commissary bank account by daily deposit. There is a point of sale cash register and the deposit is reconciled to the register tape prior to the deposit. The Staff kitchen personnel are responsible for ordering and receiving all food items. The food items are expensed and no formal inventory is maintained.
- **Enhanced Meals** - These are meals that are prepared for the Sheriff's workforce only by the staff kitchen, as a privilege. The number of meals served is tracked by a form and accumulated weekly by the staff kitchen. An invoice is submitted to the Canteen account for the meals at cost - \$4.50 a meal. The money is deposited in the Commissary account which bore the original cost of the meal. This is a "for the benefit of the prisoner" use of canteen funds.



### **Broad Overview of Accounting for Canteen and Commissary Accounts**

The revenue for the programs described above is deposited, wired by ACH payment, or transferred to either the Canteen or Commissary bank accounts, depending on the program. Expenses mainly consist of food and supplies bought for the programs and paid for by check. The canteen maintains an inventory, the staff kitchen does not – everything is expensed. A detailed allocated personnel charge is made to each of the Canteen and Commissary accounts for salaries and benefits of those working in the programs. Money is transferred from the Canteen and Commissary accounts into InSITE revenue accounts so the employees can be paid for that time via the normal Sheriff Payroll procedure. The Accounting staff records each cash transaction from Canteen and Commissary bank accounts into Quicken which serves as the general ledger. Accounting staff reconciles Quicken to the reconciled bank account to assure all transactions have been accurately entered. Quicken is then downloaded into Excel which produces monthly/yearly financial statements.



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An abbreviated version of the internally generated financial statements of the Canteen and Commissary Programs is presented below for the year ended June 30, 2013.

<b>Virginia Beach Sheriff's Office Commissary Account</b>	
<b>Income Statement</b>	
<b>For the Year Ending June 30, 2013</b>	
<b>Sales</b>	
Canteen	\$558,124.00
Caremart	<u>\$201,470.00</u>
<b>Total Sales</b>	<b>\$759,594.00</b>
<b>Less Cost of Goods Sold</b>	<b><u>-\$430,014.00</u></b>
<b>Gross Profit</b>	<b>\$329,580.00</b>
<b>Less Operating Expenses</b>	<b><u>-\$175,036.00</u></b>
<b>Net Profit</b>	<b>\$154,544.00</b>

<b>Virginia Beach Sheriff's Office Commissary Account</b>		
<b>Income Statement</b>		
<b>For the Year Ending June 30, 2013</b>		
<b>Sales</b>		
Staff		\$162,312.00
Dining		
Fresh		\$41,315.00
Favorites		
Lunch		\$11,764.00
Bags		
Enhanced		\$61,668.00
Meals		
Caremart		<u>\$1,032,583.00</u>
<b>Total Sales</b>		<b>\$1,309,642.00</b>
<b>Less Cost of Goods Sold</b>		<b><u>-\$507,001.00</u></b>
<b>Gross Profit</b>		<b>\$802,641.00</b>
<b>Less Operating Expenses</b>		<b><u>-\$293,935.00</u></b>
<b>Net Profit From Operations</b>		<b>\$508,706.00</b>
<b>Add Other Income</b>		<b><u>\$2,136.00</u></b>
<b>Net Profit</b>		<b>\$510,842.00</b>

The Sheriff's Office, in transitioning to internally providing the Canteen and Commissary programs has emphasized operational efficiency in generating substantial revenue for the



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Sheriff's Office operations. The desire for efficiency is admirable and while a perfect internal control structure is never achieved we should always work with available resources to balance operational efficiency with a control structure that reduces risk to an acceptable level within cost benefit parameters. Our findings note certain areas of internal control weaknesses within the operations which can be strengthened. The accounting controls are designed to reduce risk to an acceptable level and are operating as designed.



## **Findings and Recommendations - Canteen**

### **Finding 1: Compliance with benefit for the inmate requirement**

Until March 5, 2013, Caremart sales, the program whereby family and friends purchase items on line by credit card through a website should have been in the Canteen account and funds subject to the “benefit of the inmate” restrictions as opposed to the Commissary account where it is free to be used for other expenditures.

The Virginia Sheriff’s Accounting Manual prior to March 5, 2013 reads *“In some facilities there is an elaborate list of food items and care packages. The means facilities use to sell these items to inmates can vary, depending on the size of the facility and the number of times each week canteen services are offered. In some facilities, the inmates family and friends can go on line and purchase items for delivery to the inmate. Many facilities have elected to contract with an outside vendor to provide canteen services.....**With all canteen service methods, the Sheriff should remember that the net profits from canteen operations must benefit the inmates within the facility. For example some purchases the net profits may be used for include: education services; recreation services; library services indigent inmate care; inmate hygiene and medical equipment; and counseling and pastoral care services.**”*

On March 5, 2013 this was changed by the General Assembly of Virginia and section §53.1-127.1 was amended so that only net profits generated from the inmates accounts are restricted for the benefit of the inmates, ***“any other profits may be used for the general operation of the sheriff’s office.”*** To recreate the net profits from past Caremart revenues deposited in the Commissary would be difficult for the following reasons:

1. The financial statements stop at the net profit line item and don’t indicate what they were spent on.
2. The expenditures in the Commissary are for a number of different programs and sometimes are for shared expenses in both the Canteen and Commissary.
3. There is some discretion by law the Sheriff has as to what expenses are for the benefit of the prisoner.

### **Recommendation:**

- 1.1 Deposit, going forward the Caremart revenue generated from the internet site into the Commissary account as now they are in compliance with the revised code.



## **Finding 2: Procurement for Canteen Operations**

Section §53.1-127.1 of the Code of Virginia designates the Sheriff as the purchasing agent for the canteen stating *“The sheriff shall be the purchasing agent in all matters involving the commissary and nonappropriated funds received from inmate”*.

The Virginia Sheriff’s Accounting Manual states *“As a public official, the Sheriff must follow the Virginia Public Procurement Act. Section §2.2-4303 of the Code of Virginia requires that all public contracts with non-governmental contractors for the purchase or lease of goods, or the purchases of services, insurance, or construction, shall be awarded after competitive sealed bidding, or competitive negotiation as provided in this section unless otherwise authorized by law. Paragraph G. of the same section would allow the Sheriff, either independently (if adopted in writing) or by adopting the locality’s procurement procedures, to develop alternate procedures for procurements not exceeding \$100,000”.... We strongly recommend that the Sheriff adopt, in writing, the locality’s policies and procedures and use the locality’s procurement specialists as much as possible in guiding the procurement process. As an alternative, the Sheriff must develop policies and procedures, making certain that these policies meet the minimum standards of the Virginia Public Procurement Act (VPPA)”*.

We found that the Sheriff had not adopted the locality’s procurement policies and procedures nor had they developed their own written procurement procedures reflecting the VPPA. In addition, we found 3 vendors whereby aggregate purchases exceeded \$100,000 for the fiscal year ended June 30, 2013.

### **Recommendation:**

- 2.1 Adopt in writing either the locality’s procurement policies and procedures and use the localities procurement specialists or develop written procurement policies and procedures that meet the minimum standards of the VPPA. The City Attorney’s Office agrees with this recommendation.

## **Finding 3: Separation of Duties in the Canteen Storeroom**

There is always a cost/benefit/risk perspective towards personnel resources utilized and control duties required when considering separation of duties within any program/function. The Canteen storeroom function is operating extremely efficiently with only two part time employees and the use of inmates to operate the Canteen function. Nonetheless, this does create a consolidation of duties that greatly increases risk. Presently in the storeroom the two employees can order, receive, issue, record, supervise the physical inventory, have access to the storeroom and the supervisor has check signing authority to the Canteen account; though he has not utilized this.



### **Recommendations:**

- 3.1 Consider available personnel and the existing two employees working within the Canteen and separate as much as possible some of the above listed storeroom duties to reduce risk and strengthen internal controls. The desired storeroom control structure would have:
1. Purchasing completely separated from receiving.
  2. Receiving separated from storekeeping.
  3. All accounting/recordkeeping should be separated from employees who have custody over the inventory.
- 3.2 Remove the Canteen Supervisor from the list of individuals with check signing authority. It is not necessary as he has not used the authority and it will improve controls going forward.

### **Finding 4: Physical Inventory**

The Virginia Sheriff's Accounting Manual Best Accounting Practices for Canteen Operations, and sound business practices recommend that a physical inventory be done twice a year, December 31<sup>st</sup> and June 30<sup>th</sup>. The canteen storeroom is in fact counted monthly by inmates under the supervision of the storeroom supervisor and thus no one independent of the canteen inventory storeroom is performing and accountable for the physical inventory. The people conducting the physical inventory (on June 30 and December 31) should not be the ones who are responsible for purchasing, receiving, issuing and recording the inventory; especially in this situation where separation is lacking. The results should be communicated to management.

### **Recommendation:**

- 4.1 Re-assign personnel that are independent of the Canteen storeroom activities to conduct the physical inventories on December 31<sup>st</sup> and June 30<sup>th</sup> and have the results independently reported to management.

### **Finding 5: Financial Statement Format**

The Virginia Sheriff's Accounting Manual Best Accounting Practices for Canteen Operations recommends that a financial statement (it does not specify the format) be produced semiannually, December 31<sup>st</sup> and June 30<sup>th</sup>, for the Canteen. We found that a statement is being produced monthly for Canteen Operations. The present format of the statement only shows activity through "net profit" but does not present what the net profit was spent on.



**Recommendation:**

- 5.1 Change the financial statement format to begin with the prior months reconciled book balance and show **all** transactions, including net profit expenditures and end at the current months reconciled cash balance. This will accomplish two important items:
- 1) give some assurance that all transactions/activity of the Canteen have been included,
  - 2) most importantly, the statement will show what the net profits were spent on as they are restricted by law to be spent for the benefit of the prisoners and one key reason a user would read these statements.

**Findings and Recommendations- Commissary**

**Finding 6: Cash Register Accountability**

The staff dining program which makes/sells meals to the Sheriff Office employees has a point-of-sale (POS) cash register by which all sales are rung up as the employee goes through the line. A basic control for a cash drawer/point of sale is that a chain of custody and accountability is always maintained over the cash drawer. Whenever a cashier is changed or the shift ends the cash drawer is counted and signed for by the outgoing and incoming cashiers. The cash register at the staff dining facility did not have any accountability assigned and multiple cashiers would ring up transactions depending on availability. About 8 months ago, this was partially corrected by having one cashier assigned during the lunch serving time which accounts for the majority of the revenue. The cash drawer is now counted at the beginning and end of lunch and reconciled to the register. However during the non-lunch time management feels it is too costly to have one person solely assigned to the register with such infrequent use and low dollar volume and is willing to accept the risk.

**Recommendations:**

- 6.1 Monitor closely this situation and should the non-lunch time revenue increase significantly, the acceptance of this risk should be revisited and if at all possible maintain accountability over the register at **all** times.
- 6.2 Document the reconciliation of the cash count to the tape when changing cashiers by a short form or by initialing and dating on the cash register tape.



### **Finding 7: Fresh Favorites from Inmate Accounts**

Section §53.1-127.1 of the Code of Virginia, which was amended on March 5, 2013, reads as follows: “the net profits from the operation of such store that are *generated from the inmates accounts* shall be used within the facility for educational, recreational, or other purposes for the benefit of the inmates as may be prescribed by the sheriff.” In addition, the Virginia Sheriff’s Accounting manual reads, “There should be a *separate* checking account for canteen operations...” Deposit all canteen funds directly into the checking account ...” Currently, Fresh Favorite sales of meals sold through the inmate accounts are being deposited into the Commissary account as opposed to the Canteen account. The cost of the Fresh Favorite meals are being paid out of the Commissary account, so a cost reimbursement to the Commissary account would be appropriate.

#### **Recommendation:**

- 7.1 Maintain in the Canteen bank account the net profit derived from Fresh Favorites sold via the inmate accounts.

### **Finding 8: Separation of Duties in the Commissary**

As with the canteen, more separation of duties should be formalized. Presently, one person does the ordering and generally *does not* do the receiving of goods though this is not a written requirement. As the staff kitchen moves to implement an inventory system, proper separation of duties will be very important for strong internal controls.

#### **Recommendation:**

- 8.1 Review all staff kitchen storeroom duties with the same principals as we recommended for the Canteen as much as possible:
1. Purchasing completely separated from receiving.
  2. Receiving separated from storekeeping.
  3. All accounting/recordkeeping should be separated from employees who have custody over the inventory.



### **Finding 9: No formal inventory is being maintained**

In the staff kitchen, which produces staff dining meals, Fresh Favorites, enhanced meals and Late Night Snack Bags, there is no formal inventory being maintained. All purchases are expensed and counting is only done randomly as needed for re-order purposes.

#### **Recommendation:**

- 9.1 Implement a formal inventory for the staff kitchen storeroom. This is a basic control and will both strengthen controls over food purchases and give management valuable data/information on meal costs. Inventory is maintained in the Canteen storeroom and the inmate kitchen.

### **Finding 10: Financial Statement Format**

As with the Canteen financial statements, we found that a financial statement is also being produced monthly for Commissary operations, broken down by program. The present format of the statement only shows activity through “net profit” but does not present what net profit was spent on and thus what the ending cash balance is.

#### **Recommendation:**

- 10.1 Change the financial statement format to begin with the prior months reconciled book balance and show **all** cash transactions, including net profit expenditures and end at the current months reconciled balance. This will accomplish two important items:
1. Give some assurance that all transactions/activity of the Commissary have been included and indicate an ending balance.
  2. Show to the reader what net profits were spent on.



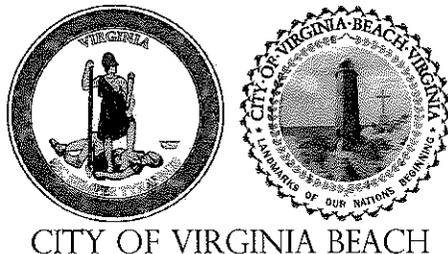
## **Conclusion**

Overall, based on the results of our audit, we determined that the policies and procedures for the Canteen and Commissary were designed with an emphasis of operational efficiency. The operational processes were not designed with internal controls and reduction of risk in mind and therefore contain design control weaknesses. We have identified those areas of weaknesses and offered recommendations to improve internal controls. The accounting controls were designed effectively to reduce risk and are operating as designed.

## **Acknowledgements**

We would like to thank the Virginia Beach Sheriff's Office for their courteous and prompt assistance during our review. They were open to our suggestions and accommodating, indicating a willingness to implement recommendations even before we completed field work.

# OFFICE OF THE SHERIFF



## MEMORANDUM

**To:** Lyndon S. Remias, CPS, CIA  
City Auditor

**FROM:** Kenneth W. Stolle,   
Sheriff/High Constable

**DATE:** February 19, 2014

**SUBJECT:** Audit of Canteen and Commissary Operation

Attached you will find the Sheriff's Office responses to your recommendations in the audit report. While the findings are considered minor, in most cases, we had taken corrective action immediately.

I would like to thank Chris Ford for all his due diligence. This was a massive undertaking and he did an outstanding job. It is always a pleasure working with your staff and office. Please do not hesitate to contact me if you need anything further.

## Findings and Recommendations - Canteen

### Finding 1: Compliance with benefit for the inmate requirement

Until March 5, 2013, Caremart sales, the program whereby family and friends purchase items on line by credit card though a website should have been in the Canteen account and funds subject to the “benefit of the inmate” restrictions as opposed to the Commissary account where it is free to be used for other expenditures.

The Virginia Sheriff’s Accounting Manual prior to March 5, 2013 reads *“In some facilities there is an elaborate list of food items and care packages. The means facilities use to sell these items to inmates can vary, depending on the size of the facility and the number of times each week canteen services are offered. In some facilities, the inmate’s family and friends can go on line and purchase items for delivery to the inmate. Many facilities have elected to contract with an outside vendor to provide canteen services.....With all canteen service methods, the Sheriff should remember that the net profits from canteen operations must benefit the inmates within the facility. For example some purchases the net profits may be used for include: education services; recreation services; library services indigent inmate care; inmate hygiene and medical equipment; and counseling and pastoral care services.”*

On March 5, 2013 this was changed by the General Assembly of Virginia and section §53.1-127.1 was amended so that only net profits generated from the inmates accounts are restricted for the benefit of the inmates, *“any other profits may be used for the general operation of the sheriff’s office.”* To recreate the net profits from past Caremart revenues deposited in the Commissary would be difficult for the following reasons:

1. The financial statements stop at the net profit line item and don’t indicate what they were spent on.
2. The expenditures in the Commissary are for a number of different programs and sometimes are for shared expenses in both the Canteen and Commissary.
3. There is some discretion by law the Sheriff has as to what expenses are for the benefit of the prisoner.

### Recommendation:

- 1.1 Deposit, going forward the Caremart revenue generated from the internet site into the Commissary account as now they are in compliance with the revised code.

*Response: As recommended the Sheriff’s office will continue to deposit the Caremart revenue to Commissary Account as it is now in compliance with the revised code.*

**Finding 2: Procurement for Canteen Operations**

Section §53.1-127.1 of the Code of Virginia designates the Sheriff as the purchasing agent for the canteen stating *“The sheriff shall be the purchasing agent in all matters involving the commissary and non-appropriated funds received from inmate”*.

The Virginia Sheriff’s Accounting Manual states *“As a public official, the Sheriff must follow the Virginia Public Procurement Act. Section §2.2-4303 of the Code of Virginia requires that all public contracts with non-governmental contractors for the purchase or lease of goods, or the purchases of services, insurance, or construction, shall be awarded after competitive sealed bidding, or competitive negotiation as provided in this section unless otherwise authorized by law. Paragraph G. of the same section would allow the Sheriff, either independently (if adopted in writing) or by adopting the locality’s procurement procedures, to develop alternate procedures for procurements not exceeding \$100,000”... We strongly recommend that the Sheriff adopt, in writing, the locality’s policies and procedures and use the locality’s procurement specialists as much as possible in guiding the procurement process. As an alternative, the Sheriff must develop policies and procedures, making certain that these policies meet the minimum standards of the Virginia Public Procurement Act (VPPA)”*.

We found that the Sheriff had not adopted the locality’s procurement policies and procedures nor had they developed their own written procurement procedures reflecting the VPPA. In addition, we found 3 vendors whereby aggregate purchases exceeded \$100,000 for the fiscal year ended June 30, 2013.

**Recommendation:**

2.1 Adopt in writing either the locality’s procurement policies and procedures and use the localities procurement specialists, or develop written procurement policies and procedures that meet the minimum standards of the VPPA. The City Attorney’s Office agrees with this recommendation.

*Response: The Sheriff’s Office will pursue options for our procurement practices with the city’s procurement office.*

**Finding 3: Separation of Duties in the Canteen Storeroom**

There is always a cost/benefit/risk perspective towards personnel resources utilized and control duties required when considering separation of duties within any program/function. The Canteen storeroom function is operating extremely efficiently with only two part time employees and the use of inmates to operate the Canteen function. Nonetheless, this does create a consolidation of duties that greatly increases risk. Presently in the storeroom the two employees can order, receive, issue, record, supervise the physical inventory, have access to the storeroom and the supervisor has check signing authority to the Canteen account; though he has not utilized this.

**Recommendations:**

3.1 Consider available personnel and the existing two employees working within the Canteen and separate as much as possible some of the above listed storeroom duties to reduce risk and strengthen internal controls. The desired storeroom control structure would have:

1. Purchasing completely separated from receiving.
2. Receiving separated from storekeeping.
3. All accounting/recordkeeping should be separated from employees who have custody over the inventory.

3.2 Remove the Canteen Supervisor from the list of individuals with check signing authority. It is not necessary as he has not used the authority and it will improve controls going forward.

*Response: We have assessed the associated risks and have determined that we will follow the recommendations of the Office of the City Auditor. Through divisional directive it will become our practice to separate the duties of ordering, receiving and taking inventory. We will also remove the canteen supervisor's check signing authority.*

**Finding 4: Physical Inventory**

The Virginia Sheriff's Accounting Manual Best Accounting Practices for Canteen Operations, and sound business practices recommend that a physical inventory be done twice a year, December 31<sup>st</sup> and June 30<sup>th</sup>. The canteen storeroom is in fact counted monthly by inmates under the supervision of the storeroom supervisor and thus no one independent of the canteen inventory storeroom is performing and accountable for the physical inventory. The people conducting the physical inventory (on June 30 and December 31) should not be the ones who are responsible for purchasing, receiving, issuing and recording the inventory; especially in this situation where separation is lacking. The results should be communicated to management.

**Recommendation:**

4.1 Re-assign personnel that are independent of the Canteen storeroom activities to conduct the physical inventories on December 31<sup>st</sup> and June 30<sup>th</sup> and have the results independently reported to management.

*Response: Through divisional directive it will become our practice to assign outside personnel to take physical inventories in the Inmate Canteen at least twice a year.*

**Finding 5: Financial Statement Format**

The Virginia Sheriff's Accounting Manual Best Accounting Practices for Canteen Operations recommends that a financial statement (it does not specify the format) be produced semiannually, December 31<sup>st</sup> and June 30<sup>th</sup>, for the Canteen. We found that a statement is being produced monthly for Canteen Operations. The present format of the statement only shows activity through "net profit" but does not present what the net profit was spent on.

**Recommendation:**

5.1 Change the financial statement format to begin with the prior months reconciled book balance and show **all** transactions, including net profit expenditures and end at the current months reconciled cash balance. This will accomplish two important items:

1) give some assurance that all transactions/activity of the Canteen have been included, 2) most importantly, the statement will show what the net profits were spent on as they are restricted by law to be spent for the benefit of the prisoners and one key reason a user would read these statements.

*Response: The financial statement format will be changed to reflect the entire cash flow activity as recommended.*

**Finding 6: Cash Register Accountability**

The staff dining program which makes/sells meals to the Sheriff Office employees has a point-of-sale (POS) cash register by which all sales are rung up as the employee goes through the line. A basic control for a cash drawer/point of sale is that a chain of custody and accountability is always maintained over the cash drawer. Whenever a cashier is changed or the shift ends the cash drawer is counted and signed for by the outgoing and incoming cashiers. The cash register at the staff dining facility did not have any accountability assigned and multiple cashiers would ring up transactions depending on availability. About 8 months ago, this was partially corrected by having one cashier assigned during the lunch serving time which accounts for the majority of the revenue. The cash drawer is now counted at the beginning and end of lunch and reconciled to the register. However during the non-lunch time management feels it is too costly to have one person solely assigned to the register with such infrequent use and low dollar volume and is willing to accept the risk.

**Recommendation:**

6.1 Monitor closely this situation and should the non-lunch time revenue increase significantly, the acceptance of this risk should be revisited and if at all possible maintain accountability over the register at **all** times.

6.2 Document the reconciliation of the cash count to the tape when changing cashiers by a short form or by initialing and dating on the cash register tape.

*Response: The Sheriff's Office will continue to closely monitor the staff dining register. Through divisional directive, it will become our practice to initial and date the register tape when reconciling the cash drawer in the staff dining room and document the amount of cash counted on the register tape.*

**Finding 7: Fresh Favorites from Inmate Accounts**

Section §53.1-127.1 of the Code of Virginia, which was amended on March 5, 2013, reads as follows: "the net profits from the operation of such store that are *generated from the inmates accounts* shall be used within the facility for educational, recreational, or other purposes for the

benefit of the inmates as may be prescribed by the sheriff.” In addition, the Virginia Sheriff’s Accounting manual reads, “There should be a *separate* checking account for canteen operations...” Deposit all canteen funds directly into the checking account ...” Currently, Fresh Favorite sales of meals sold through the inmate accounts are being deposited into the Commissary account as opposed to the Canteen account. The cost of the Fresh Favorite meals are being paid out of the Commissary account, so a cost reimbursement to the Commissary account would be appropriate.

**Recommendation:**

7.1 Maintain in the Canteen bank account the net profit derived from Fresh Favorites sold via the inmate accounts.

*Response: The Fresh Favorites sales in the inmate accounts will now be deposited to the Canteen Account. The cost of these items will be analyzed to be the basis of reimbursement to the Commissary Account.*

**Finding 8: Separation of Duties in the Commissary**

As with the canteen, more separation of duties should be formalized. Presently, one person does the ordering and generally *does not* do the receiving of goods though this is not a written requirement. As the staff kitchen moves to implement an inventory system, proper separation of duties will be very important for strong internal controls.

**Recommendation:**

8.1 Review all staff kitchen storeroom duties with the same principals as we recommended for the Canteen as much as possible:

1. Purchasing completely separated from receiving.
2. Receiving separated from storekeeping.
3. All accounting/recordkeeping should be separated from employees who have custody over the inventory.

*Response: Through divisional directive it will become our practice to separate the duties of ordering, receiving and taking inventory in the staff kitchen.*

**Finding 9: No formal inventory is being maintained**

In the staff kitchen, which produces staff dining meals, Fresh Favorites, enhanced meals and Late Night Snack Bags, there is no formal inventory being maintained. All purchases are expensed and counting is only done randomly as needed for re-order purposes.

**Recommendation:**

9.1 Implement a formal inventory for the staff kitchen storeroom. This is a basic control and will both strengthen controls over food purchases and give management valuable data/information on meal costs. Inventory is maintained in the Canteen storeroom and the inmate kitchen.

*Response: The Sheriff's Office will implement a formal inventory for the staff kitchen.*

**Finding 10: Financial Statement Format**

As with the Canteen financial statements, we found that a financial statement is also being produced monthly for Commissary operations, broken down by program. The present format of the statement only shows activity through "net profit" but does not present what net profit was spent on and thus what the ending cash balance is.

**Recommendation:**

10.1 Change the financial statement format to begin with the prior months reconciled book balance and show **all** cash transactions, including net profit expenditures and end at the current months reconciled balance. This will accomplish two important items:

1. Give some assurance that all transactions/activity of the Commissary have been included and indicate an ending balance.
2. Show to the reader what net profits were spent on.

*Response: The financial statement format will be change to reflect the entire cash flow activity as recommended.*