AUDIT DEPARTMENT

Audit Report

Las Vegas Metropolitan Police Department House Arrest Program Revenue

January 2013

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Audit Director

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Angela M. Darragh, CPA, CFE, CISA, Director

January 28, 2013

Mr. Don Burnette
Clark County Manager
500 South Grand Central Parkway, 6th Floor
Las Vegas, Nevada 89106

Dear Mr. Burnette:

As requested by the Office of the Sheriff, we conducted an audit of the Las Vegas Metropolitan Police Department's House Arrest program revenue.

Our objectives were to determine whether (1) participation fees are reasonably administered in accordance with NRS requirements for program cost recovery and participant ability-to-pay, and (2) House Arrest program revenue is reasonably safeguarded and accounted for, and in accordance with County procedures and contract payment terms.

We found that participation fees are not reasonably administered in accordance with NRS requirements for program cost recovery and participant ability-to-pay. Collection practices for accounts receivable are not conducted on a formal routine, are not included in standard operating procedures, and are not in compliance with BCC direction for administering delinquent accounts receivable. A reduced rate scale for inmates with financial need has not been brought before the BCC for approval in accordance with NRS, and current procedures allow for approvals based on incomplete applications. Standard participation fees have not been approved by the BCC in accordance with NRS and have not changed since at least 2002. We also found that collected program revenue is reasonably safeguarded and accounted for, but did identify some areas where procedures can be strengthened to improve cash and accounting control, efficiency, and data accuracy. Additional detail is included in our final report.

A draft report was provided to the Sheriff for comment and his response is included. We appreciate the cooperation and assistance provided by House Arrest program administrators.

Sincerely,

/s/ Angela M. Darragh

Angela M. Darragh, CPA
Audit Director

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BACKGROUND

As authorized by Chapter 211 of the Nevada Revised Statutes (NRS), the Sheriff and Las Vegas Metropolitan Police Department (LVMPD) administer a House Arrest program that allows qualified inmates to be incarcerated in their home or other approved residence, under electronic supervision, in lieu of incarceration in the Clark County Detention Center. Clark County contracts with Omnilink Systems Inc. to provide global positioning system (GPS) ankle devices used for location tracking of House Arrest participants.

LVMPD's Detention Services Division, Alternatives to Incarceration, House Arrest Unit administers the House Arrest program, including determining participant eligibility and monitoring participants. On an average day in fiscal 2012, House Arrest was responsible for over 200 inmates under active electronic supervision, including GPS monitoring, home visits, and detention center check-ins. To qualify for House Arrest under NRS, an inmate must have a suitable residential living situation and not pose an unreasonable risk to public safety.

NRS also requires House Arrest inmates to pay participation fees according to their ability to pay, and that total fees collected should be reasonably commensurate with the program's cost to the County. House Arrest collected, safeguarded, and recorded over $500,000 in fiscal 2012. Standard fees for House Arrest inmates are currently set by the House Arrest unit and include $30 at intake and $10 per day while under supervision.

OBJECTIVES, SCOPE, AND METHODOLOGY

We initiated this audit at the request of the Sheriff. Our objectives were to determine whether:

- Participation fees are reasonably administered in accordance with NRS requirements for program cost recovery and participant ability to pay.
- House Arrest program revenue is reasonably safeguarded and accounted for, and in accordance with County procedures and contract payment terms.

To achieve our objectives we reviewed NRS to determine program requirements. We then interviewed House Arrest administrators and staff, reviewed department policies and procedures, and documented the House Arrest unit's internal control system related to fiscal administration. We analyzed accounting system user access levels

and operational roles to determine appropriate segregation of duties. We tested for sequential and void receipts and reviewed and agreed accounting data in the House Arrest accounting system and the Clark County SAP system. We also tested inmate account data by recalculating a sample of 15 inmate balances due based on their time in the House Arrest program and payment history. Our detailed testing procedures covered fiscal year 2012, and our last day of fieldwork was September 13, 2012.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

RESULTS IN BRIEF

Based on our audit, we believe participation fees are not reasonably administered in accordance with NRS requirements for program cost recovery and participant ability to pay. We identified opportunities for improvement in the following areas:

- Collection practices for accounts receivable are not conducted on a formal routine, are not included in standard operating procedures, and are not in compliance with Board of County Commission (BCC) direction for administering delinquent accounts receivable.
- The reduced rate scale for inmates with financial need has not been brought before the BCC for approval, and current procedures allow for approvals based on incomplete applications.
- Standard participation fees have not been approved by the BCC in accordance with NRS 211.280 and have not changed since at least 2002.

Overall, we found that collected program revenue is reasonably safeguarded and accounted for in accordance with county procedures and contract payment terms. We did identify some areas where procedures can be strengthened to improve cash and accounting control, efficiency, and data accuracy.

DETAILED RESULTS

Accounts Receivable Require Additional Attention

Collection practices for accounts receivable are not conducted on a formal routine, are not included in standard operating procedures, and are not in compliance with BCC direction for administering delinquent accounts receivable. At June 30, 2012, House Arrest accounting records dating back to FY 2003 {unaudited}, include a significant balance due of nearly $3.5 million from inmates no longer in the House Arrest program. The average total amount due is $347,000 from each fiscal year back to 2003, based on last invoice date. According to House Arrest staff, because NRS contains an ability-to-pay provision for House Arrest inmates, staff does not collect fees up-front.

House Arrest does require inmates exiting the program to sign repayment agreements, which outline a final balance due and minimum weekly installment. We also found that collections letters were sent to inmates that left the program in each of years 2006 through 2009. However, this practice is not conducted on a formal routine and is not included in standard operating procedures. Based on the data, we found that 24% of former House Arrest inmates exhibited a zero balance, and only 46% of former inmates with a balance due made a payment after they were removed from House Arrest. Therefore, these practices result in payments, but do not appear suitable to fully address receivables.

A 1998 BCC resolution directs departments with delinquent accounts receivable to invoice counterparties at 30- 60- 90 day intervals, and to engage the Office of the District Attorney and the Office of the Comptroller for a determination on how to administer delinquent accounts, including whether to remove the account from County records or send the accounts to collection. House Arrest does not provide 30- 60- 90 day invoices. We found no evidence that either the Office of the District Attorney or the Office of the Comptroller was engaged to determine whether delinquent accounts should be removed from records, or whether alternative collections strategies should be pursued.

Recommendation

We recommend House Arrest administrators formalize collections practices and routines in standard operating procedures.

We also recommend that House Arrest administrators engage the Office of the District Attorney and the Office of the Comptroller to bring delinquent account administration into compliance with BCC direction, including routine reporting of receivables to the Comptroller's Office and determining which significantly delinquent accounts should be removed from County records.

Reduced Rate Administration Needs BCC Approval, Consistency, Simplification

House Arrest allows inmates to submit an application and supporting documentation for reduced rates in order to comply with an ability-to-pay provision included in NRS 211.280. According to NRS, "A prisoner so supervised shall pay toward the (electronic supervision) fees according to his or her ability to pay." The application itself collects data on applicant income, expenses, and living situation. However, the reduced rate scale was not approved by the BCC, and therefore is not compliant with NRS.

Only 23 reduced rate applications were approved in fiscal 2012. We reviewed 6 of 23 reduced rate approvals, and found in each case documentation supporting an application's income or expense assertion was absent or incomplete. According to staff, House Arrest collects and reviews only the paperwork submitted by the participant; no follow-up or verification is conducted on applicant assertions. As a result, reduced rate decisions are based on incomplete information. We believe verification is not done due to the significant effort required, which is not directly related to the mission of the unit.

Recommendation

We recommend House Arrest administrators implement standard operating procedures to routinely submit rates (including reduced rates) to the BCC for direction and approval.

In order to improve consistency and simplify reduced rate administration, we recommend House Arrest consider adopting a practice for reduced rate determinations that bases approval on the applicant's proof of acceptance into other Clark County or State of NV assistance programs. For example, if an individual provides proof of acceptance into Medicaid, Child Care Assistance Program, Clark County Social Services, Women, Infant, Children, or any number of other assistance programs, then the individual automatically qualifies for a reduced rate at House Arrest. As a result, the effort required for

administering a needs-based application, assessment, and verification process is conducted by individuals whose primary daily responsibility is making needs-based determinations.

Standard Rates Need BCC Approval

The current rate structure has not been submitted to the BCC for approval in accordance with NRS 211.280. According to NRS, "The board of county commissioners…shall set an application fee and a daily fee for electronic supervision reasonably commensurate with its cost to the county." Since the rate structure was not submitted to the Board, the BCC has not had the opportunity to provide formal direction on House Arrest program rates, and the rate structure is not in compliance with NRS.

House Arrest rates have not changed since at least 2002. As a result, rates were not adjusted over time to reflect changes in cost structure or inflation. For example, using Bureau of Labor Statistics' inflation index for Western Urban Areas, the daily fee should have risen to $12.60 in 2012, in order to maintain the same purchasing power as the daily $10 fee that was in place as far back as 2002.

On a direct revenue and direct expense basis, for every dollar House Arrest collects in fees, almost three dollars are expended to operate the program. In FY 2012, House Arrest collected over $500,000 but expended $1.4 million. We did not quantify the benefits that House Arrest provides, such as stable employment and family situations, and cost savings from not housing inmates in the Detention Center.

Recommendation

We recommend House Arrest administrators implement standard operating procedures to routinely submit rates to the BCC for direction and approval. House Arrest administrators should provide the BCC with data on the financial performance of the program in order to provide context for decision-making.

Cash Controls Can Be Strengthened

Cash is currently placed into the House Arrest Sergeant's custody without dual or independent verification of the amount. While we did not find any errors during our testing, we believe this process increases the risk for loss. Correction Assistants collect fees from inmates on a daily basis as inmates visit the Detention Center for routine check-ins. The Correction Assistants drop their cash collections and individual receipts into the House Arrest Sergeant's

safe at the end of their shift. While receipts accompany the cash drop, the amount of cash is not counted or attested by a second individual when the cash changes custody. Discrepancies could go unnoticed for up to a week because staff prepares cash for deposit weekly.

Recommendation

We recommend that two individuals count cash and provide signatures on count sheets when cash changes custody.

Deposits Frequency Should be Increased

On average in fiscal 2012, over $11,737 accumulated in the House Arrest Sergeant's safe before being transferred to the business office for deposit into the bank. Two deposits were over $20,000 prior to transfer. The risk of misappropriation increases when cash is held for a long period of time.

Recommendation

We recommend that the House Arrest Sergeant evaluate whether more frequent deposits can be performed to reduce the amount of cash sitting in the safe.

Updates to Accounting System Procedures Will Improve Control, Efficiency, and Accuracy

Updating password policies, user permissions, weekly deposit procedures, and invoicing procedures related to the accounting system will improve security, accounting control, efficiency, and accuracy in the House Arrest unit.

Accounting System Password Administration Does Not Follow Policy

Password administration over the accounting system is not conducted in accordance with good password security practice and LVMPD password security policy. No standard operating procedures are in place governing password administration in the unit. As a result, system security can be improved. We found one user identified as "admin" (a security risk), and no specified routine to update passwords as required by policy (a security and accountability risk).

In order to add a layer of protection against compromise, "admin" accounts should generally be disabled and necessary rights assigned to individuals through their own unique ID. This also creates increased accountability for the ID. Further, when passwords are not changed for extended periods of time, there is a greater likelihood

that if they become compromised, they can be used for an extended period of time by an unauthorized person.

Recommendation

We recommend the House Arrest Sergeant update standard operating procedures to bring password administration into compliance with LVMPD password security policy.

Accounting System User Permissions Should be Reviewed

House Arrest has not conducted a systematic review of user permissions in the accounting system relative to individual operational duties in order to determine appropriate segregation of duties and overall system security. As a result, weaknesses exist related to internal control over cash receipting in the accounting system and the risk for error or misappropriation is heightened.

Correction Assistants have view, add, and edit access to a wide variety of system modules, including file backups and event logs. In addition, Correction Assistants receive cash and have the ability to edit receipts in the system if they make an error. This combination of duties and user permissions heightens the risk for error, loss, or misappropriation, since one individual has access to cash and can remove the proof that the cash existed. Because unpaid balances are not sent to collections, there is minimal chance that the error would be caught by the House Arrest client.

Further, the individual responsible for preparing the weekly deposit packages has edit access over system reports, which means system-generated documentation supporting weekly deposits could be edited to conceal a theft.

Recommendation

We recommend the House Arrest Sergeant systematically review staff duties against user permissions in the House Arrest accounting system to ensure that duties are appropriately segregated and the appropriate view, add, or edit permission is granted. Duties for issuing a receipt and editing receipting errors should be segregated. Lastly, the individual responsible for preparing weekly deposit packages should have read only access to system reports.

Weekly Deposit Efficiency Can Be Improved

Weekly deposit procedures could be made more efficient by utilizing accounting system reports. Currently, the Law Enforcement Support Technician (LEST) prepares a manual schedule of receipt numbers as part of weekly deposit procedures in order to (1) control for missing or void receipts, (2) provide a control total for cash on hand, and (3) provide support for deposit packages and SAP accounting records. The manual process is time consuming.

Recommendation

We recommend the LEST obtain system-generated reports available in the accounting system, such as the cash receipts journal report or the audit report. These reports can be used to (1) control for missing or void receipts, (2) provide a control total for cash on hand, and (3) provide support for deposit packages and SAP accounting records.

Inaccurate Receivables for Active Inmates

Correction Assistants currently overstate active inmates' receivable balances when an inmate is first placed on House Arrest. The current procedure is for the Correction Assistant to estimate the time the inmate will be on house arrest, and then create an invoice for the charges for the entire period. Once an inmate exits House Arrest, the invoice is adjusted to bill for only the days in the program. This practice results in unreliable receivable data for active inmates and often results in the creation of negative invoices to adjust the total amount due downward in the event that an inmate exits House Arrest prior to the original estimate. We tested 15 inmate accounts, and found the balances due were correct upon exit from the program.

Recommendation

We recommend the House Arrest Sergeant direct the Correction Assistants to utilize the recurring invoice feature in the accounting application and set up weekly invoices for active inmates. When an inmate exits House Arrest, the recurring feature can be disabled and a final invoice can be generated.

Invoices Need Verification

Currently, no one in the House Arrest unit reviews monthly invoices from the ankle device vendor (Omnilink) to determine that the invoiced amounts for active bracelet days is accurate. We tested billing for 20 inmates and did not find any errors. However, good business practice would be to verify each invoice for accuracy.

Recommendation

We recommend the House Arrest Sergeant implement procedures to run a report of active House Arrest inmates from the accounting system and agree this data to active devices on monthly Omnilink invoices.

APPENDICES

Appendix A: Management Response Letter

LAS VEGAS METROPOLITAN POLICE DEPARTMENT

MEMORANDUM

DATE : 1/16/2013
TO : Angela Darragh, Director Clark County Audit
SUBJECT : Clark County Sheriff's Civil Audit Response FYI

We respectfully offer the following in response to the Audit Report of the Clark County Detention Center House Arrest Section, dated January 2013. The House Arrest Section has been operating for many years with created systems and accounting practice to get the job done. We have had a previous internal audit to established best practice numerous years back but not a formal County Audit. This process was welcomed, and it established a new starting point for moving forward with better accountability, as well as, identifying practices that could have potentially created errors, or allowed for indiscretions. Responses to those recommendations are as follows;

Recommendation: We recommend House Arrest administrators formalize collections practices and routines in standard operating procedures.

We also recommend that House Arrest administrators engage the Office of the District Attorney and the Office of the Comptroller to bring delinquent account administration into compliance with BCC direction, including routine reporting of receivables to the Comptroller's Office and determining which significantly delinquent accounts should be removed from County records.

Concur. Due to current practice and system structure, invoicing is very problematic due to the number of individuals on house arrest, as well as the number of past accounts still in the system. One example is, court ordered programs where the individual completes their house arrest and court ordered requirements in a short period of time, yet they have in many cases, up to three years to pay. SOP will address the collection process including the recommendation of including the Comptroller and the DA's office for collection. Invoicing recommendations will be implemented for those currently on the program, with a modified invoicing structure for those court ordered house arrest accounts.

Recommendation: We recommend House Arrest administrators implement standard operating procedures to routinely submit rates (including reduced rates) to the BCC for direction and approval. In order to improve consistency and simplify reduced rate administration, we recommend House Arrest consider adopting a practice for reduced rate determinations that bases approval on the applicant's proof of acceptance into other Clark County or State of NV assistance programs.

Concur This practice will begin and rates will be submitted on a bi-annual basis to the BCC. Furthermore, routine audits will be requested to ensure best practice every 18 months. Current practice of verification is done with a modified scale, yet verification of information has been problematic. Once the new scale is adopted and processes of verification are implemented, all concerns will be rectified and this recommendation met.

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Recommendation: We recommend House Arrest administrators implement standard operating procedures to routinely submit rates to the BCC for direction and approval. House Arrest administrators should provide the BCC with data on the financial performance of the program in order to provide context for decision-making.

Concur. Standard Operating Procedure will include procedures for establishing a sliding scale addressing the individual's ability to pay. Currently a scale is used and was created from other sliding scales such as HUD, etc. This new scale will fall within guidelines established by other County services such as Social Services, etc. In addition, once the new scale is created, it will be submitted to the BCC for approval.

Recommendation: We recommend that two individuals count cash and provide signatures on count sheets when cash changes custody.

Concur. There is currently double verification but not in each other's presence. The new practice will require two people present at the time of verification to avoid the possibility of indiscretion. This recommendation will be complied with resolving any concern. In addition, once the money handling machine is implemented, this practice will not be necessary and only reconciliation will need to take place without money being present.

Recommendation: We recommend that the House Arrest Sergeant evaluate whether more frequent deposits can be performed to reduce the amount of cash sitting in the safe.

Concur. Currently, this would be very labor intensive due to staffing but we are going to abide by the recommendation as best we can. We are pursuing money handling machines which will eliminate this concern all together. SOP will reflect the new practice.

Recommendation: We recommend the House Arrest Sergeant update standard operating procedures to bring password administration into compliance with LVMPD password security policy.

Concur. Due to the PeachTree System being a purchased, stand alone system, it will not interface with LVMPD computer systems. SOP will consist of the supervisor requiring password changes every 6 months, and this will be completed manually by the supervisor for each employee. Automatic prompting of password changes is not an option with this technology thus manual implementation will be required as mentioned.

Recommendation: We recommend the House Arrest Sergeant systematically review staff duties against user permissions in the House Arrest accounting system to ensure that duties are appropriately segregated and the appropriate view, add, or edit permission is granted. Duties for issuing a receipt and editing receipting errors should be segregated. Lastly, the individual responsible for preparing weekly deposit packages should have read only access to system reports.

Concur. "Add" permissions have been granted to monitor transactions that are made in error. After further evaluation, "edit" rights being granted, would provide the ability for potential indiscretion. For those staff members not needing "add" rights to the system, they will have read only access. County auditors concurred.

Recommendation: We recommend the LEST obtain system-generated reports, such as the cash receipts journal report or the audit report, available in the accounting system for the appropriate date range and use these reports

Concur. In the past we were not aware of this option. Current practice is manual accounting and manual verification. Although no errors were noted, this recommendation is being pursued to maintain accountability. In addition, the introduction of the money handling machine will eliminate this process and concerns.

Recommendation: We recommend the House Arrest Sergeant direct the Correction Assistants to utilize the recurring invoice feature in the accounting application and set up weekly invoices for active inmates. When an inmate exits House Arrest, the recurring feature can be disabled and a final invoice can be generated.

Concur This option is being pursued as well due to the outstanding monies that need to be collected. SOP will include invoicing and practice for retrieving outstanding debt. We are in the process of implementing the reoccurring feature in order for invoices to be created. Current practice is manual invoices being drawn up and served. Automation of this process with auto deliver would enhance our ability to work more efficient with using technology more effectively.

Recommendation: We recommend the House Arrest Sergeant implement procedures to run a report of active House Arrest inmates from the accounting system and agree this data to active devices on monthly Omnilink invoices.

Concur. This will be complied with. Current practice evaluated damage and replacement but not comparison between vendor invoicing, and equipment on hand. Verification will be SOP and conducted by the section supervisor.

On behalf of the Detention Services Division and the Las Vegas Metropolitan Police Department, it is with sincere appreciation that we thank Clark County Audit Department Director Angela Darragh, Principal Auditor Rachael Bernal, and Internal Auditor Keith Slade for their assistance during this process. The time spent in our facility to work with our staff was very much appreciated. This was no simple undertaking, and the recommendations that were provided, are appreciated so that we may improve our operations, and at the same time, protect our employees from indiscretion.

We look forward to working with you in the future and thank you again for working with us to successfully carry out the audit of our section.

Frank Reagan, Captain
Staff Operations Bureau
Clark County Detention Center
702-671-3939
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