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# Department of Finance Billing for Detention Services

August 2014

*Internal Audit Report Authorized by the  
Maricopa County Board of Supervisors*

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<b>Report Highlights</b>	<b>Page</b>
Rate setting methodology appears reasonable.	1
Controls over rate activation are being established.	1
Invoices are processed accurately.	3
Billing and collections protocols are being updated.	3
Credits are processed accurately.	4
State and Federal billing activities are being reviewed.	4

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**Background**

When city, town, or tribal police officers make an arrest, they bring the suspect to the County jail for booking and housing. If the charge is less serious (e.g., a misdemeanor), the case is heard in a municipal court and the booking and housing costs, also known as a “Jail Per Diem,” are paid by the arresting agency (agency). When the case is heard in a County justice court or State superior court, the County is responsible for the jail costs.

If the County jail is holding an inmate for transfer to another agency, such as the Arizona Department of Corrections or U.S. Marshal, the County bills these agencies for any booking or housing costs.

The Jail Per Diem billing rates are developed by the County Department of Finance, and are based on the County’s annual booking and housing costs.

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**Objectives**

To determine that:

- The methodology used to develop the County’s Jail Billing Rate (Jail Per Diem) is reasonable.
- The Jail Per Diem rate review and deployment processes comply with State statutes, agreements with agencies, and County policy.
- The Jail Per Diem billing and collections are accurate, adequately supported, and timely.

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**Scope**

This audit focused on the annual rate-setting process for the Jail Per Diem charged to cities, towns, and the State, and on related billing and collections processes. The Department of Finance (DOF) currently conducts these activities. Effective August 2014, billing and collections will be transferred to the Maricopa County Sheriff’s Office (MCSO) Finance Department, but the DOF will continue to be responsible for rate setting. The audit testing period was primarily July 2009 to September 2013, accounting for nearly \$132 million in Jail Per Diem revenue. We interviewed DOF employees and reviewed over 1 million billing records, 758 invoices, 126 adjustments, 6,644 same day releases, and 265 class 6 felony classifications.

## **Audit Results**

### **Issue #1: Rate Setting**

**Observation:** We reviewed the Fiscal Year (FY) 2014 Jail Per Diem rate study developed by the consulting firm MGT of America for the Department of Finance (DOF). The purpose of the study was to develop jail booking and housing fees to charge agencies for use of County jail services in accordance with State statutes. The cost methodology used in the study is consistent with generally accepted accounting principles and cost accounting standards. We found that the DOF obtained Board of Supervisors' approval for all annual rate changes and provided final rates to the serviced cities and towns by February 1<sup>st</sup> in accordance with the agreements. DOF did not obtain Board approval for the FY 2012 rates because they were carried over from the prior year.

<b>Conclusion #1A:</b> The rate setting methodology appears reasonable.	
<b>Recommendation</b>	<b>DOF Action Plan</b>
None	N/A
<b>Conclusion #1B:</b> Controls over rate setting appear adequate.	
<b>Recommendation</b>	<b>DOF Action Plan</b>
None	N/A

### **Issue #2: Annual Rate Activation**

**Observation:** We reviewed DOF's rate implementation documentation for FY 2010 through FY 2015. We found that DOF did not activate the FY 2013 and FY 2014 rates until July 9, 2012 and July 10, 2013, respectively, resulting in an estimated \$1.5 million in lost revenue. In the Jail Management System billing module, the rates do not automatically roll over from one year to the next, nor can they be applied retroactively. Consequently, agencies were not billed for jail services for 17 days (July 1 – 8, 2012 and July 1 – 9, 2013). Furthermore, DOF did not activate Gila Bend's rates for FY 2011 and FY 2012, an estimated \$20,000 in lost revenue.

We also tested rate accuracy. For FY 2010 through FY 2013, DOF accurately entered the Jail Per Diem rates into the Jail Management System billing module. In FY 2014, the rates were accurate for 29 of 31 agencies. In one instance, DOF mistakenly entered the FY 2013 Jail Per Diem rates rather than the FY 2014 rates for the Town of Gilbert. This error was corrected in September 2013, 66 days after the start of the fiscal year. The delay resulted in a net overcharge of \$9,849.

<b>Conclusion #2A:</b> Controls over rate activation need to be established.	
<b>Recommendations</b>	<b>DOF Action Plan</b>
<b>2A-1</b> Develop and implement formal rate activation protocols that include validating and monitoring rates entered in the billing system.	Concur – completed Inmate billing procedures were updated with instructions to input new fiscal year rates prior to June and to request a report from MCSO to verify that all rates have been entered correctly.
<b>2A-2</b> Conduct periodic data analytics to detect unusual billing activity and ensure prompt corrective action.	Concur – in process Inmate billing procedures are being updated with instructions to review JMS billing summary reports for unusual activity. Target Date: 9/30/2014
<b>2A-3</b> Work with MCSO IT to determine if annual rate activation and validation controls can be improved.	Concur – in process DOF will work with MCSO IT to provide reports on billing rates and agency codes. Target Date: 9/30/2014
<b>2A-4</b> Determine if unbilled amounts are recoverable and bill accordingly.	Concur – in process DOF has reviewed JMS reports for the months of July 2012 and July 2013 to identify unbilled amounts. Per advice from the County Attorney, the amounts are considered recoverable. DOF will be corresponding with applicable cities and towns for recovery. Target Date: 9/30/2014
<b>2A-5</b> Determine if the Town of Gilbert is due a credit and process accordingly.	Concur – in process DOF will review JMS reports for FY 2014 to identify incorrect billing for the Town of Gilbert. Target Date: 9/30/2014

### Issue #3: Billing and Collections

**Observation:** We reviewed invoices for the top 15 billable agencies, which represented 99% of Jail Per Diem revenue for FY 2010 through the first quarter of FY 2014, and found that the invoices were substantially accurate. However, we found that DOF uses the first day of the month on invoices, not the actual invoice issue date. We also reviewed 100 payments and found that, overall, DOF entered payments accurately in the billing system. Although errors occurred infrequently, they were not corrected timely. Of the 100 payments reviewed, 19 were past due. As of September 2013, 10 agencies had accounts receivable balances older than 90 days, totaling \$1.13 million. This includes a State balance of \$708,683, which existed prior to 2001 when DOF assumed responsibility for Jail Per Diem billing and collections.

<b>Conclusion #3A:</b> Overall, invoices were accurate and were correctly entered into the billing system.	
<b>Recommendation</b>	<b>DOF Action Plan</b>
None	N/A
<b>Conclusion #3B:</b> Controls over billing and collections can be strengthened.	
<b>Recommendations</b>	<b>DOF Action Plan</b>
<b>3B-1</b> Update internal procedures that address Jail Per Diem billing, adjustments, and collections.	Concur – in process DOF will review inmate billing procedures regarding billing adjustments and past due accounts and make changes as needed. Target Date: 9/30/2014
<b>3B-2</b> Establish a management review process for billing and invoicing.	Concur – in process Current inmate billing procedures include management review of aging reports. DOF will explore additional areas for management review. Target Date: 9/30/2014
<b>3B-3</b> Consider initiating uncollectable accounts receivable proceedings for the State balance, or formally document the justification for retaining this receivable on the Jail Per Diem subsidiary ledger.	Concur – in process The balances were transferred from MCSO when the billing function transferred to DOF in 2001. DOF will confer with MCSO about appropriate action for the State balance. Target Date: 9/30/2014

#### Issue #4: Credit Requests

**Observation:** Jail Per Diem credit requests by municipalities were generally related to inmates prosecuted in municipal courts for class 6 felonies or incarcerated for second offense DUI convictions. The former is non-billable and the latter results in a 50% fee reduction. These longstanding County practices that date back to at least 1990 are not required by statute, but are defined in the Jail Per Diem agreements. We reviewed 104 municipal billing adjustments for FY 2010 through the first quarter of FY 2014 and found that 97% of the municipal credits requested were accurately calculated and adequately supported.

The six State adjustments in our sample were for sentenced inmates being held for transfer to the Arizona Department of Corrections (DOC). The DOC does not accept inmate transfers on the weekend and does not pay for inmates held for transfer over the weekend. Although the County does not have a Jail Per Diem agreement with DOC, it granted these adjustments.

The agreement between the County and Federal agencies does not contain terms for requesting billing adjustments. Therefore, the County granted all Federal credit requests without supporting documentation. In addition, DOF was unable to locate credit request files for the billing months of August 2010, June 2011, and July 2011, contrary to State records retention requirements.

<b>Conclusion #4A:</b> Municipal credits were accurately calculated and sufficiently supported.	
<b>Recommendation</b>	<b>DOF Action Plan</b>
None	N/A
<b>Conclusion #4B:</b> Controls over Jail Per Diem credit authorization should be strengthened.	
<b>Recommendations</b>	<b>DOF Action Plan</b>
<b>4B-1</b> To promote consistency and ease in transitioning the credit processing responsibility to MCSO, consider updating internal procedures.	Concur – in process Procedures regarding supporting documentation requirements and records retention are detailed in sections 4.5 and 12.2 of the IGA for County Jail Services & Facilities with the City of Phoenix and on pages 2 and 4 of the Detention Services and Related Costs document. Internal billing procedures will be reviewed and updated as needed. Target Date: 9/30/2014

Recommendations	DOF Action Plan
<p><b>4B-2</b> Establish guidelines with State and Federal agencies for Jail Per Diem billable activities.</p>	<p>Concur – in process</p> <p>DOF will confer with MCSO and update inmate billing procedures with additional details on the billable activities with State and Federal agencies.</p> <p>Target Date: 9/30/2014</p>

<p><b>Standards</b></p>	<p>This audit was approved by the Board of Supervisors and was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing. The specific areas reviewed were selected through a formal risk-assessment process.</p>
<p><b>Auditors</b></p>	<p>Eve Murillo, Deputy County Auditor, CPA, MBA, CFE, ITIL  Toni Sage, Audit Supervisor, MBA, CIA, CGAP, CRMA  Charles Coleman, Associate Auditor  KPMG LLC</p>

This report is intended primarily for the information and use of the County Board of Supervisors, County leadership, and other County stakeholders. However, this report is a matter of public record and its distribution is not limited.

We have reviewed this information with the Department of Finance. The Action Plan was approved by Shelby Scharbach, Chief Financial Officer, on July 29, 2014.

If you have any questions about this report, please contact Eve Murillo, Deputy County Auditor, at 602-506-7245.