ORANGE COUNTY

AUDITOR-CONTROLLER

INTERNAL AUDIT

AUDIT OF PROBATION DEPARTMENT INTERNAL CONTROLS OVER JUVENILE RECORDS AND ACCOUNTS

For the Fiscal Years Ending June 30, 2010 and June 30, 2011

Audit Number 1074
Report Date: March 22, 2012

ORANGE COUNTY

AUDITOR-CONTROLLER

INTERNAL AUDIT

Orange County Auditor-Controller

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Transmittal Letter

Audit No. 1074

March 22, 2012

TO: The Honorable Thomas J. Borris
Presiding Judge of the Superior Court, County of Orange

SUBJECT: Report on Audit of Probation Department Internal Controls Over Juvenile Records and Accounts

We have completed our Audit of the Probation Department's Internal Controls over Juvenile Records and Accounts for the Fiscal Years Ending June 30, 2010 and June 30, 2011 as required by Chapter 2, Section 275(b) of the Welfare and Institutions Code. Enclosed is a copy of the report.

The Auditor-Controller Internal Audit Unit is available to partner with the Probation Department to assist in successfully implementing audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendations.

Additionally, we will be forwarding to the Probation Department a Customer Survey of Audit Services for completion. The Probation Department will receive the survey shortly after the distribution of this report.

Shaun M. Skelly
Chief Deputy Auditor-Controller

Other recipients of this report:
Members, Board of Supervisors
Members, Audit Oversight Committee
Clerk of the Board of Supervisors
Thomas G. Mauk, County Executive Officer
Steven J. Sentman, Chief Probation Officer
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Internal Auditor's Report

Audit No. 1074

March 22, 2012

TO: The Honorable Thomas J. Borris
Presiding Judge of the Superior Court, County of Orange

SUBJECT: Audit of Probation Department Internal Controls Over Juvenile Records and Accounts

We have completed an audit of the Juvenile Division's books and accounts for the Orange County Probation Department (Probation) for the fiscal years ending June 30, 2010 and June 30, 2011 as required by Chapter 2, Section 275(b) of the Welfare and Institutions Code. Our audit included an evaluation of Probation's internal controls and processes relating to cash receipts, disbursements, case file management and collection of juvenile probation cases, and selected information technology general and application controls to ensure the integrity, confidentiality and availability of information system resources as they relate to the Integrated Probation Financial System. Our audit was performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States for the purpose of evaluating the adequacy and effectiveness of internal controls. We believe that our audit provides a reasonable basis for our opinion.

Probation's management is responsible for establishing and maintaining a system of prudent internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition and transactions are executed in accordance with management's authorization and recorded properly. This audit enhances but does not substitute for Probation's continuing emphasis on control activities and self-assessment of control risk.

Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate. Our audit, performed for the limited purpose described above, would not necessarily disclose all material weaknesses in Probation's operating procedures, accounting practices, and compliance with County policy as they relate to the internal controls over Probation's books and accounts.

Based on our audit, Probation's internal controls over its books and accounts relating to juveniles are generally adequate and effective to ensure management's goals and objectives are accomplished in accordance with Chapter 2, Section 275(b) of the Welfare and Institutions Code. However, we did note areas where internal controls should be strengthened, and these issues are discussed in the Detailed Findings, Recommendations, and Management Responses section of this report. Responses from Probation Department Management have been included for each recommendation, and the complete text of their responses has been appended to the report.

We appreciate the courtesy and cooperation extended to us by the personnel of the Probation Department during our review. If we can be of further assistance, please contact me at (714) 796-8067 or Dat Thomas, Senior Auditor, at (714) 796-8066.

Nancy N. Ishida, CPA
Audit Manager

Attachment A – Report Item Classifications
Attachment B – Probation Management Responses

Other recipients of this report:
Members, Board of Supervisors
Members, Audit Oversight Committee
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Jean Yu, Director, Data Systems Division, Probation
Foreperson, Grand Jury
Peter Hughes, Director, Internal Audit Department

EXECUTIVE SUMMARY

PURPOSE OF THE AUDIT

We have completed an audit of the Juvenile Division's books and accounts for the Orange County Probation Department (Probation) for the fiscal years ending June 30, 2010 and June 30, 2011 as required by Chapter 2, Section 275(b) of the Welfare and Institutions Code.

AUDIT APPROACH

Our audit included an evaluation of Probation's internal controls and processes relating to cash receipts, disbursements, case file management and collection for juvenile probation cases, and selected information technology general controls to ensure the integrity, confidentiality and availability of information system resources as they relate to the Integrated Probation Financial System (IPFS). Our audit was performed in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States for the purpose of evaluating the adequacy and effectiveness of internal controls. We believe that our audit provides a reasonable basis for our opinion.

AUDIT CONCLUSION AND RESULTS

Based on our audit, Probation's internal controls over its books and accounts relating to cash receipts, disbursements, and case file management of juvenile cases are generally adequate and effective to ensure management's goals and objectives are accomplished in accordance with Chapter 2, Section 275(b) of the Welfare and Institutions Code. However, we identified ten control deficiencies related to the quality control reviews, suspense account, safeguarding of assets, trust fund disbursements, cash receipt documentation, and manual cash receipts.

We also identified one significant deficiency and one control deficiency related to Probation's information technology general controls over management and security of information system resources.

SUMMARY OF RECOMMENDATIONS

These issues are discussed in the Detailed Findings, Recommendations and Management Responses section of this report. Responses from Probation have been included for each recommendation, and the complete text of their responses has been appended to the report. See Appendix A for a description of report item classifications.

A brief description of the recommendations is listed below:

Collection for Juvenile Probation Cases and Accounting Procedures (10 Audit Recommendations)

1. Strengthen controls over the review and correction of Statement of Cost Exception Report items to help ensure client information is correct and complete in the system and

to enable Probation to bill these juvenile and parent accounts for monies owed to the County, the State, and the victims.

2. Require the Supervising Collection Officers to perform quality control reviews for each Collection Officer in accordance with Probation's policy and procedures.
3. Require the Supervising Collection Officers to visibly document their quality control reviews.
4. Improve controls over the timely review of suspense items.
5. Strengthen controls to ensure Account Modification Request forms are accurately prepared and accountability is documented.
6. Strengthen controls over changing the safe combination upon termination or transfer of key employees with knowledge of the combination.
7. Strengthen controls to ensure disbursements are made in a timely manner and in compliance with California Penal Code 1203.1 (b).
8. Improve controls over the accuracy of the Deposit Worksheets information.
9. Perform a periodic inventory in accordance with County Accounting Procedure C-5 *Handwritten Cash Receipts*, which includes an inventory of the outstanding and unused manual cash receipt books.
10. Strengthen controls to ensure notification of separated employees is sent timely to Probation IT to provide for the timely removal of network user access.

Information Technology General Controls (2 Audit Recommendations)

11. Ensure there are adequate system controls in the Integrated Probation Financial System (IPFS) to provide for proper segregation of duties for the Grand Avenue Office Accounting Staff to ensure that employees who authorize and finalize transactions in the IPFS do not have the ability to make unauthorized changes to Statement of Cost information.
12. Terminate network user access for separated employees in a timely manner.

BACKGROUND

Probation has four major field offices and during the audit period had five juvenile institutions that house about 799 youths daily. The major field offices are located in Anaheim, Westminster, Laguna Hills, and Santa Ana. The Probation juvenile institutions are: Juvenile Hall, Joplin Youth Center, Lacy Juvenile Annex, Youth Guidance Center, and Youth Leadership Academy.

Probation protects the community by conducting investigations for the court, enforcing court orders, assisting victims, and facilitating the re-socialization of offenders. Probation is headed by the Chief Probation Officer and employs 1,389 regular employees. The department also utilizes the services of about 500 Volunteers in Probation, 30 Volunteer Probation Officers, 110 Volunteer Internship Academy, and 29-member Probation Community Action Association. Probation officers supervise approximately 15,291 adult and 6,234 juvenile offenders.

Probation has the fiduciary responsibility for a variety of monies, including monies for fines, fees, penalty assessments, restitution to victims, and charges for services provided. The Integrated Probation Financial System (IPFS) is used to record the collection and payment of

these monies. Probation maintains trust funds that are used for the collection and disbursement of monies. Probation also administers a number of federal and state grant programs.

SCOPE

Our audit focused on Probation's internal controls and processes over cash receipts, disbursements, case file management collection of juvenile probation cases, and selected information technology general controls to ensure the integrity, confidentiality and availability of information system resources as they relate to the Integrated Probation Financial System (IPFS). The audit period covered the two fiscal years ending June 30, 2010 and June 30, 2011. Chapter 2, Section 275(b) of the Welfare and Institutions Code requires an audit of the books and accounts relating to juvenile cases. Although the Probation Department oversees both adult and juvenile cases, we limited our audit to include juvenile cases and related issues. Our information technology procedures included general controls with testing of security management and access controls, application controls for the IPFS, and specific business process controls.

METHODOLOGY

Our methodology included inquiry, auditor observation, and testing of pertinent documentation for the purpose of assessing the adequacy and effectiveness of Probation's internal controls and processes. Our planning process included an analysis of internal controls based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework and considered risks that could potentially impact the audit.

DETAILED FINDINGS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

STATEMENT OF COST EXCEPTION REPORT

Finding No. 1 – Statement of Cost (SOC) Exception Report is Not Properly Reviewed (Control Deficiency)

The *SOC Exception Report* is not properly reviewed in order to resolve outstanding issues.

The SOC is a statement used to bill probationers and their parents for itemized charges such as restitution ordered by the Court, institutional care services fees, public defender fees, urinalysis fees, and various fines. The Probation Manchester Office Building (MOB) Financial Support Unit is responsible for reviewing the *SOC Exception Report* which lists items that are pending correction before the SOC can be sent to probationers and their parents. The MOB Financial Support Unit is assigned the task of researching the exceptions on the report so they can be corrected. Obligations that appear on the *SOC Exception Report* have not been billed.

As part of our review of business process controls, we asked the Probation Information Technology (IT) Division to generate the *SOC Exception Report* for the period July 1, 2009 to December 6, 2011 which reported pending issues to be reviewed and resolved involving

obligations that needed to be collected. We were unable to determine the total amount of exceptions from the *SOC Exception Report* due to system migration errors, mainly in the parental obligation information, which are currently being corrected by the Probation IT Division. We were informed that due to short staff, the *SOC Exception Report* is only reviewed and resolved when time permits.

Probation does not have a formal procedure requiring the *SOC Exception Report* to be reviewed and corrected in order to allow for collection efforts to be conducted in an effective and efficient manner. Since Probation is not reviewing the *SOC Exception Report* in a consistent manner, pending SOCs are not being billed out making it difficult for Probation to collect these monies owed by probationers and their parents.

Recommendation No. 1

We recommend that Probation management strengthen controls over the review and correction of the Statement of Cost Exception Report items to help ensure client information is correct and complete in the system and to enable Probation to bill these juvenile and parental accounts for monies owed to the County, the State, and the victims.

Probation's Response

Concur. Since the last audit, the Department completed migration from a 12-year-old sub-ledger client financial system (PFS) to a new system (IPFS) and new program technology. Users went online on May 2, 2011. As the Department's focus was to ensure a smooth transition for line staff, management reports for the new system are still being refined. At this time, Information Technology (IT) programming resources are dedicated to projects previously prioritized within the Department. Management will prioritize this initiative for IPFS programming resources by June 30, 2012. When completed, these reports will facilitate timely review and correction of outstanding items to help ensure accurate records and billing.

PROBATION COLLECTIONS

Probation is responsible for collecting restitution owed to victims, fine and fees owed by juveniles and/or parents, and parental fees incurred by the County for services and support of juveniles. Probation's priority is the collection of victim restitution.

Finding No. 2 – Quality Control Reviews of Collection Officers Were Not Performed (Control Deficiency)

The Supervising Collection Officers (SCOs) did not perform quality control reviews for six Collection Officers.

The Probation procedure "SCO Case Review" (issued as of 11/3/10) states that "Due to the amount of cases assigned to each Collection Officer, the SCO will select a minimum of 5 cases per Collection Officer per month to ensure appropriate continuity in the collection activities and that the desk guidelines and procedures applicable to the assignment have properly been

executed to the case. The SCO will use the SCO review form, attached, to mark the items reviewed and make a note if there is any area that needs to be addressed."

We reviewed all "Supervising Collection Officer Case Review" (Case Review) forms from July 2010 to March 2011 and noted the following:

- A Case Review form was missing for one Collection Officer in July 2010.
- A Case Review form was missing for four Collection Officers in November 2010.
- A Case Review form was missing for one Collection Officer in both February 2011 and March 2011.

We confirmed with the Probation Collections Manager that the SCOs did not perform a quality control review for the above mentioned Collection Officers.

Quality control reviews help to ensure that timely and consistent application of collection activities occurs to detect gaps in collection activities. It is important that this control be adequately and consistently performed in order to provide quality control monitoring of the Collection Officers' activities.

Recommendation No. 2

We recommend that Probation management require the Supervising Collection Officers to perform quality control reviews for each Collection Officer in accordance with Probation's policy and procedures.

Probation's Response

Concur. The system migration required a strong time commitment from its cadre members, a core group of line staff and supervisors who served as close collaborators and advisors to IT during the 12-month project migration. The Supervising Collection Officers were also part of the cadre. As such, much of their review was performed under the auspices of system migration and not properly documented for audit purposes. With the migration complete, the Department now plans to incorporate the review into a measureable reporting feature of IPFS. This initiative will require dedicated IPFS programming resources, to be identified and prioritized as described in number 1, above.

Finding No. 3 – No Documentation of Quality Control Reviews (Control Deficiency)

There is no documentation of quality control reviews being performed by the Supervising Collection Officers (SCOs) from April 2011 through June 2011.

As a result of the prior Probation Audit for the fiscal years ending June 30, 2008 and June 30, 2009 (original Audit #1030), issued March 3, 2010, Probation Collections created "Supervising Collection Officer Case Review" forms (Case Review forms) to document the SCO's review of a selected sample of case reviews performed on a monthly basis. The Case Review forms were implemented in July 2010.

The Probation procedure "SCO Case Review" (issued as of 11/3/10) states that "The SCO will use the SCO review form…to mark the items reviewed and make a note if there is any area that needs to be addressed…A copy of all the SCO review forms will be provided to the Collections Manager every month."

Quality control reviews help to ensure that timely and consistent application of collection activities occurs to detect gaps in collection activities. It is important that this control be adequately and consistently documented in order to provide an audit trail and establish accountability for the performance of quality control reviews.

Recommendation No. 3

We recommend that Probation management require the Supervising Collection Officers to visibly document their quality control reviews.

Probation's Response

Concur. See response to #2, above.

Finding No. 4 – No Evidence of Review of Suspense Items (Control Deficiency)

There was no evidence that five (i.e., 25%) out of the 20 suspense items judgmentally selected for review had been reviewed by a Collection Officer.

The Probation suspense account list is a collection of transactions/payments for which the cashier was unable to identify an account. It is used as a temporary hold account for monies received until the Collection Officers are able to research the suspense account items. The Probation procedure *Suspense* states that "It is the responsibility of the Collection Officer(s) to research payments in the suspense account and apply funds to the appropriate accounts and obligations…After finding the transaction that you are working on, press F6 to make a note on the transaction. You must manually enter the date and your initials as the system does not automatically stamp them on suspense transactions…."

As of June 30, 2009, the suspense account balance was approximately $151,385. After that date, due to reduced staffing resources Probation disbanded the suspense team that focused on working to resolve suspense account items. Unlike the former Probation Financial System (PFS), the new Integrated Probation Financial System (IPFS) is not able to perform automated reviews in order to help apply suspense monies. Probation's current policy is for the Collection Officers to only review suspense items as they encounter them during their daily caseload. Since the change in suspense account review policy, the suspense account balance significantly increased approximately 278% to $421,976 as of June 30, 2011.

We judgmentally selected 20 suspense items that were still outstanding as of June 30, 2011 and noted the following items did not have evidence of a review:

	Suspense Amount	Entered into Suspense	Number of business days without evidence of review as of 6/30/11
1	$165.38	4/14/09	808 days (26 months)
2	$232.43	4/22/10	435 days (14 months)
3	$929.00	8/30/10	305 days (10 months)
4	$45.00	10/19/10	255 days (8 months)
5	$150.00	10/26/10	248 days (8 months)

Lack of timely review of the suspense items could result in payments not being identified and applied to appropriate accounts resulting in late distribution or non-distribution of monies collected from probationers to the County, the State, and the victims.

Recommendation No. 4

We recommend that Probation Collections improve controls over the timely review of suspense items.

Probation's Response

Concur. The Department lost over 15% of its personnel during the time covered by the audit. In Collections, layoffs forced disbandment of the team focused on clearing suspense items. IPFS has been enhanced as much as possible to find and automatically post items otherwise would require manual review. The Department expects that the new IPFS will facilitate timely review of suspense items, augmented by additional personnel, under County hiring policies currently in effect. Probation Management accepts the risk associated with timely review of suspense items. The Department considers actions for this finding to be fully implemented.

Finding No. 5 – Account Modification Request Forms Were Not Properly Prepared (Control Deficiency)

Account Modification Request (AMR) forms contained inaccurate and/or incomplete information.

It is Probation's internal procedure that certain changes to juvenile case data must be requested through an AMR form. The AMR form is typically created by a Collection Officer and approved by a Supervising Collection Officer (SCO). The AMR can only be processed by Grand Avenue Office (GAO) Accounting. The AMR is equipped with an electronic stamp (e-stamp) function for the creator and approver to stamp their name on the form to establish accountability and document process completion. The stamp is accessible by entering a user identification (ID) and password.

We judgmentally selected 10 AMR forms processed by GAO Accounting and observed errors and/or incomplete data on two out of 10 sampled AMR forms. We noted the following:

1. The creation date on one AMR form was input as September 15, 2001 when it should have been September 15, 2010. In addition, the reason documented on the form was "M/O dated 11/19/09" when the Minute Order (M/O) date was verified to be September 9, 2010.

2. Another AMR form was accurately processed in the IPFS, but the AMR form did not have an e-stamp by the GAO Accounting staff member who processed the request.

Inaccurate or incomplete information on the AMR form may cause the request to be processed incorrectly and does not provide an adequate audit trail.

Recommendation No. 5

We recommend that Probation management strengthen controls to ensure the Account Modification Request forms are accurately prepared and accountability is documented.

Probation's Response

Concur. The Department will put additional controls in place to strengthen the AMR (Account Modification Request) process. This initiative will require dedicated IPFS programming resources, to be identified and prioritized as described in number 1, above.

SAFEGUARDING ASSETS

Finding No. 6 – Safe Combination Was Not Changed (Control Deficiency)

The safe combination was not changed after a former cashier who had access to the North County Field Service Office (NCFSO) safe separated from the Probation Department.

It is Probation's procedure to change the combination to each department safe annually in January. In addition, the combination to a particular safe is supposed to be changed if an employee authorized to use a safe separates from employment with the Probation Department or is reassigned any time during the year.

During our review of the cashiering internal control processes, we noted that a NCFSO cashier was transferred out of Probation on March 24, 2011; however, the last NCFSO safe combination changed occurred on February 2, 2011, before the employee separated from Probation. It is important that safe combinations be changed immediately when key employees with knowledge of the combination transfer or separate from the Probation Department in order to reduce the risk of misappropriation of assets.

Recommendation No. 6

We recommend that Probation Accounting strengthen controls over changing the safe combination upon termination or transfer of key employees with knowledge of the combination.

Probation's Response

Concur. Department procedures have been revised to more clearly state the process for this occurrence. The Department considers actions for this finding to be fully implemented.

DISBURSEMENTS

Finding No. 7 – Untimely Disbursement (Control Deficiency)

Probation payments were disbursed untimely according to Probation's policy and Penal Code requirements.

According to Probation's Accounting Office Supervisor over disbursements, it is Probation's policy to complete the disbursement process in one week. We reviewed the disbursement for the cutoff date of June 21, 2011 and noted that the final disbursement was prepared on July 15, 2011, or approximately 17 business days after the cutoff date.

Untimely disbursements may result in noncompliance with Penal Code Section 1203.1(b) which states "Any restitution payment received by a court or probation department in the form of a check or draft shall be forwarded to the victim within 45 days from the date the payment is received…."

We reviewed all disbursements in the test sample for instances of victim restitution where the payor paid with a check of $50.00 or more. We noted that in all 22 instances the 45 day holding period limit stated in the aforementioned Penal Code had been exceeded. We were informed that the disbursement was delayed due to the implementation of the new Integrated Probation Financial System (IPFS).

Recommendation No. 7

We recommend that Probation Accounting strengthen controls to ensure disbursements are made in a timely manner and in compliance with California Penal Code 1203.1 (b).

Probation's Response

Concur. System migration slowed the disbursement process during the first several weeks post-cutover. The time period measured by the audit was six weeks after the migration to the new IPFS. Disbursements were delayed due to data quality issues connected with the migration. When those issues were resolved, the Department disbursement process once again became timely. The Department considers actions for this finding to be fully implemented.

CASH RECEIPTS

Finding No. 8 – Inaccurate Cash Receipt Documentation (Control Deficiency)

The deposit amounts for payments collected on March 8, 2010 and recorded on the "Deposit Worksheet" were inaccurate.

The Probation Grand Avenue Office (GAO) cashiers use the "Deposit Worksheet" to assist them in reconciling the monies received by Probation to the supporting documents and deposit slips. The County Accounting Procedure S-2 *Internal Control Systems* states that "A system of authorization and record-keeping procedures is needed to provide effective accounting controls…Documentation shall provide an adequate audit trail. Transactions shall be accurate, timely, properly recorded, and properly classified."

We reviewed the cash receipt documentation for payments collected on March 8, 2010 and noted the Deposit Worksheet had incorrect deposit amounts when compared to the actual deposits recorded on the County Finance and Purchasing System (CAPS+) cash receipt. The Deposit Worksheet recorded a regular deposit of $50,830.93 when it was actually $51,830.93; an understatement of $1,000. The Deposit Worksheet included a miscellaneous deposit of $59,922.60 which should have been recorded as $58,922.60; an overstatement of $1,000. In this situation the individual deposits recorded on both forms were different, but when the total deposits were netted, they resulted in the same total of $110,753.53.

Recommendation No. 8

We recommend that Probation Cashiering improve controls over the accuracy of the Deposit Worksheets information.

Probation's Response

Concur. While Department Management believes that this finding documents a very rare occurrence, controls have been reviewed for improvement in how Deposits are accurately documented. Staff Desk Procedures are currently being written and/or revised for the Accounting Unit. The Department considers actions for this finding to be partially implemented.

Finding No. 9 – No Inventories of Unused Manual Cash Receipt Books or Outstanding (i.e., Issued) Manual Cash Receipt Books (Control Deficiency)

Probation does not perform inventories of its unused manual cash receipt books. Probation also had not performed a recent inventory of the outstanding manual cash receipt books issued to Probation staff as of the audit period.

The Grand Avenue Office (GAO) Payroll Unit maintains custodianship of the Probation Department's used and unused manual cash receipt books. Although Probation Cashiers normally use cashiering terminals to record cash receipts, manual cash receipt books are still utilized in cases where the cashier's terminal is not working or when Deputy Probation Officers

need to accept payments from probationers when working in the field. Manual cash receipt books are only issued to authorized Probation employees, i.e., cashiers at all field locations and Deputy Probation Officers who collect payments in the field. The unused manual cash receipt books are secured in a safe.

The County Accounting Procedure C-5 *Handwritten Cash Receipts* requires County departments to "have an inventory of the cash receipt forms performed periodically by an employee with no custodial or cashiering duties."

While reviewing the controls over the unused stock of manual cash receipt books, we confirmed with the Probation Accounting Manager that Probation has never performed an inventory of the unused manual cash receipt books.

We tested a sample of the manual cash receipt books that had been issued to the cashiers and Deputy Probation Officers and noted that there was no physical audit performed for the outstanding manual cash receipt books for the year 2010. The last physical audit performed for outstanding books had been as of April 24, 2009.

Manual cash receipts provide for control and accountability over monies received and are used to record remittances when cash registers are not available. Performing periodic inventories of the outstanding manual receipt books as well as the unused manual cash receipt books reduces the risk of fraud and may help to detect misappropriation of cash or checks.

Recommendation No. 9

We recommend that Probation perform a periodic inventory in accordance with County Accounting Procedure C-5 *Handwritten Cash Receipts*, which includes an inventory of the outstanding and unused manual cash receipt books.

Probation's Response

Concur. During this Audit period, Probation's former Accounting Manager retired and a new manager was hired. The Department believes this transition item was initially overlooked and then deferred due to more pressing PFS system migration. The Accounting Manager and supervisors were also part of the system cadre. With the migration complete, timely review of cash receipt books will resume. The Department considers actions for this finding to be partially implemented.

Finding No. 10 – Untimely Separation Notification to Probation IT (Control Deficiency)

Probation operations did not notify the Probation Information Technology (IT) Division timely of employee separations.

The Probation procedure *Information Technology Access, Changes and Assistance* (issued as of 7/22/10) section II.A.1 states "…the [Network User Access Request (NUAR)] form should be received at least five working days prior to the effective date of the staffing change except access

termination which should be received no later than 3 days after termination date." Section II.A.3 states "Professional Standards Division will notify Information Technology Division of any staff separation from Probation Department with effective date by email within 3 days after termination date."

We obtained an Excel list from Probation documenting the access removal of separated employees in fiscal years 2009/2010 and 2010/2011. The Excel list recorded the following items:

1) Date Probation IT receives the notification of the separation.
2) Effective date of termination.
3) Notification type (i.e., by the Professional Standards Division (PSD) or by NUAR form).
4) Date access was removed.

From review of the Excel list, we noted the following in cases where IT was not notified timely:

1. For 6 out of the 43 (or 14%) cases in which separated employee notification exceeded the 3 day limit, IT had been notified via NUAR forms. The NUAR forms were received by Probation IT within 4, 9, 15, 51, 67, and 117 business days after the termination date.

2. For 1 out of the 175 (or 0.58%) cases in which separated employee notification exceeded the 3 day limit, IT had been notified by PSD. The PSD notification was received by Probation IT within 7 business days after the termination date.

Probation IT should be notified timely of separated employees in order to give IT sufficient time to properly remove the user access in accordance with Probation policy. Late notification of employee separation may increase the risk of improper access to information in the Probation IT systems.

Recommendation No. 10

We recommend that Probation management strengthen controls to ensure notification of separated employees is sent timely to Probation IT to provide for the timely removal of network user access.

Probation's Response

Concur. Probation Management believes Department controls are adequate to ensure that only authorized users have access to its systems. It re-wrote its IT Security and Systems Access Procedure Manual Items (PMIs), effective 12/1/2011. The occurrences found during the audit were unusual and fully explained as to why they existed. However, it was recognized that the Department's controls could be strengthened by re-writing the PMIs noted above. It is the responsibility of the supervisor to ensure that Network Access User (NUAR) Forms are timely sent to Probation IT, within three business days of separation. Supervisors are advised that NUAR forms can even be sent in advance of a separation date, with an effective date noted on the form. Simultaneously, Division personnel initiate a Personnel Assignment Worksheet (PAW) that describes any HR action that an employee is taking. The PAW is sent to the

Professional Standards Division (PSD) for final approval and processing. Once approved, the PAW is scanned and electronically distributed to all Department personnel on a need-to-know basis, including IT. When a more immediate action is necessary, an e-mail from an authorized PSD employee to IT is acceptable for IT to terminate employee access to systems. Last, Separation Reports generated by PSD and sent to IT are also acceptable to terminate employee system access. Whether IT receives the NUAR form directly from the employee's supervised chain of command or it receives a PAW, Separation Report or other authorized e-mail from PSD, a separated employee is to be removed within two business days of receipt of an acceptable form. Now, employee supervisors, Professional Standards Division personnel and IT personnel have a stronger and more efficient process to ensure network user access has been terminated timely for separated employees. The Department considers actions for this finding to be fully implemented.

Information Technology Controls

Probation should strengthen information technology (IT) internal controls over the proper segregation of duties, timely notification of separated employees, and timely user access removal for separated employees.

SEGREGATION OF DUTIES

Finding No. 11 – Statement of Cost Final Approver also has Editing Capability (Significant Deficiency)

The Probation employee who is the final approver for the Statement of Cost (SOC) also has the ability to edit the SOC, which is a segregation of duties conflict.

The County Accounting Procedure S-1 *Development of Financial Computer Systems* states "The financial information should have system controls that prevent the same user from authorizing, processing, recording/inputting, or reviewing/verifying/reconciling a transaction."

The County Accounting Procedure S-2 *Internal Control System* states that "Key duties such as authorizing, approving or recoding transaction, issuing or receiving assets, making payment, and reviewing or auditing shall be assigned to separate individuals to minimize the risk of loss."

The SOC is a statement used to bill probationers and their parents for itemized charges such as restitution ordered by the Court, institutional care services fees, public defender fees, urinalysis fees, and various fines. The SOC is generated by the Integrated Probation Financial System (IPFS) based on information input by the Manchester Office Building (MOB) Financial Support Unit. In order to properly segregate information technology (IT) duties, system users should not be granted user access roles which enable them to make unauthorized changes to key information in the IPFS.

On October 6, 2011, we observed a GAO Accounting employee review and approve a SOC in the IPFS. She verified the information on the SOC to ensure the client information and obligation were correct. We observed that the IPFS allows the same GAO employee, prior to

approving the SOC, to edit some information on the SOC, such as the status of the obligation, the program code, the priority code, and the obligation amount. Although it is their procedure to reject an SOC if there are discrepancies, the GAO Accounting staff have user access which allows them to make changes to SOC documents.

Recommendation No. 11

We recommend that Probation management ensure there are adequate system controls in the Integrated Probation Financial System (IPFS) to provide for proper segregation of duties for the Grand Avenue Office (GAO) Accounting staff to ensure that employees who authorize and finalize transactions in the IPFS do not have the ability to make unauthorized changes to Statement of Cost information.

Probation's Response

Concur. The Department will put additional controls in place to strengthen PFS' editing processes to ensure proper segregation of duties for staff. This initiative will require dedicated IPFS programming resources, to be identified and prioritized as described in number 1, above.

TERMINATION OF USER ACCOUNTS

Finding No. 12 – Active User Account for a Separated Employee (Control Deficiency)

The Probation network user account was still active for one separated Probation employee.

During the general information technology (IT) controls testing, we obtained the *Professional Standards Division Monthly Separation Reports* (PSD Separation Reports) from October 1, 2010 to October 20, 2011 listing all Probation employees who had been separated or transferred out from the department. We also obtained a list of all active network user accounts (active user list) generated by Probation IT on November 9, 2011. We compared PSD's Separation Reports to the active user list to ensure all separated employees no longer have an active network user account. We noted that one employee on the PSD Separation Report who was separated in January 2011 still had an active network user account as of November 9, 2011.

The Probation procedure *Information Technology Security Policy* (issued as of 1/22/09) section II.C.2 states "User accounts are to be immediately deleted when the respective employee is no longer a member of the Probation Department." Also, the Probation procedure *Information Technology Access, Changes and Assistance* (issued as of 7/22/10) section II.A.1 states that "A completed Network User Access Request (NUAR) form should be completed and sent to the Information Technology Division as soon as possible when a new employee have been hired, separated or a transfer announced."

User access should be promptly removed when employees leave the department in order to reduce opportunities for improper access to view or make changes to information or programs maintained in computer systems.

Recommendation No. 12

We recommend that Probation IT terminate network user access for separated employees in a timely manner.

Probation's Response

Concur. Probation Management believes Department controls are adequate to ensure that only authorized users have access to its systems. It re-wrote its IT Security and Systems Access Procedure Manual Items (PMIs), effective 12/1/2011. The one occurrence found during the audit was an anomaly. However, it was recognized that the Department's controls could be strengthened by re-writing the PMIs noted above. The revised process is fully described in number 10, above. The Department considers actions for this finding to be fully implemented.

APPENDIX A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we have classified audit report items into three distinct categories:

Control Deficiency

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect, or correct errors in assertions made by management on a timely basis.

Significant Deficiency

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report data reliably in accordance with the applicable criteria or framework such that there is more than a remote likelihood that a misstatement of the subject matter that is more than inconsequential will not be prevented or detected by the entity's internal control.

Material Weakness

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the subject matter will not be prevented or detected by the entity's internal control.

APPENDIX B: Probation Management Responses

ORANGE COUNTY
OC Probation

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DATE: March 20, 2012

TO: Shaun M. Skelly
Chief Deputy Auditor-Controller

CC: Thomas G. Mauk, CEO
Bryan Prieto, Chief Deputy Probation Officer
Brian Wayt, Director, Administrative & Fiscal Division, Probation
Jean Yu, Director, Information Technology Division, Probation
Lorna Winterrowd, Manager, Administrative & Fiscal Division, Probation

FROM: Steven J. Sentman
Chief Probation Officer

SUBJECT: Responses to Internal Audit Findings

The Office of the CEO has reviewed Probation's draft responses to the Internal Audit findings discussed in your draft report dated February 22, 2012, and has requested that we move forward with you to finish the report as soon as possible. Accordingly, attached are the Probation Department's final responses to your report.

If you have any questions, please contact Brian Wayt at 714.937.4728. Thank you.

SJS: lw
Attachments

Collection for Juvenile Probation Cases and Accounting Procedures (10 Audit Recommendations)

1. Strengthen controls over the review and correction of Statement of Cost Exception Report items to help ensure client information is correct and complete in the system and to enable Probation to bill these juvenile and parent accounts for monies owed to the County, the State, and the victims.

   Probation's Response: Concur. Since the last audit, the Department completed migration from a 12-year-old sub-ledger client financial system (PFS) to a new system (IPFS) and new program technology. Users went online on May 2, 2011. As the Department's focus was to ensure a smooth transition for line staff, management reports for the new system are still being refined. At this time, Information Technology (IT) programming resources are dedicated to projects previously prioritized within the Department. Management will prioritize this initiative for IPFS programming resources by June 30, 2012. When completed, these reports will facilitate timely review and correction of outstanding items to help ensure accurate records and billing.

2. Require the Supervising Collection Officers to perform quality control reviews for each Collection Officer in accordance with Probation's policy and procedures.

   Probation's Response: Concur. The system migration required a strong time commitment from its cadre members, a core group of line staff and supervisors who served as close collaborators and advisors to IT during the 12-month project migration. The Supervising Collections Officers were also part of the cadre. As such, much of their review was performed under the auspices of system migration and not properly documented for audit purposes. With the migration complete, the Department now plans to incorporate the review into a measureable reporting feature of IPFS. This initiative will require dedicated IPFS programming resources, to be identified and prioritized as described in number 1, above.

3. Require the Supervising Collection Officers to visibly document their quality control reviews.

   Probation's Response: Concur. See response to #2, above.

4. Improve controls over the timely review of suspense items.

   Probation's Response: Concur. The Department lost over 15% of its personnel during the time covered by the audit. In Collections, layoffs forced disbandment of the team focused on clearing suspense items. IPFS has been enhanced as much as possible to find and automatically post items that otherwise would require manual review. The Department expects that the new IPFS will facilitate timely review of suspense items,

augmented by additional personnel, under County hiring policies currently in effect. Probation Management accepts the risk associated with timely review of suspense items. The Department considers actions for this finding to be fully implemented.

5. Strengthen controls to ensure Account Modification Request forms are accurately prepared and accountability is documented.

   Probation's Response: Concur. The Department will put additional controls in place to strengthen the AMR (Account Modification Request) process. This initiative will require dedicated IPFS programming resources, to be identified and prioritized as described in number 1, above.

6. Strengthen controls over changing the safe combination upon termination or transfer of key employees with knowledge of the combination.

   Probation's Response: Concur. Department procedures have been revised to more clearly state the process for this occurrence. The Department considers actions for this finding to be fully implemented.

7. Strengthen controls to ensure disbursements are made in a timely manner and in compliance with California Penal Code 1203.1 (b).

   Probation's Response: Concur. System migration slowed the disbursement process during the first several weeks post-cutover. The time period measured by the audit was six weeks after the migration to the new IPFS. Disbursements were delayed due to data quality issues connected with the migration. When those issues were resolved, the Department disbursement process once again became timely. The Department considers actions for this finding to be fully implemented.

8. Improve controls over the accuracy of the Deposit Worksheets information.

   Probation's Response: Concur. While Department Management believes that this finding documents a very rare occurrence, controls have been reviewed for improvement in how Deposits are accurately documented. Staff Desk Procedures are currently being written and/or revised for the Accounting Unit. The Department considers actions for this finding to be partially implemented.

9. Perform a periodic inventory in accordance with County Accounting Procedure C-5 *Handwritten Cash Receipts*, which includes an inventory of the outstanding and unused manual cash receipt books.

   Probation's Response: Concur. During this Audit period, Probation's former Accounting Manager retired and a new manager was hired. The Department believes this transition item was initially overlooked and then deferred due to more pressing PFS system migration. The Accounting Manager and supervisors were also part of the system cadre. With the migration complete, timely review of cash receipt books will resume. The Department considers actions for this finding to be partially implemented.

10. Strengthen controls to ensure notification of separated employees is sent timely to Probation IT to provide for the timely removal of network user access.

    Probation's Response: Concur. Probation Management believes Department controls are adequate to ensure that only authorized users have access to its systems. It re-wrote its IT Security and Systems Access Procedure Manual Items (PMIs), effective 12/1/2011. The occurrences found during the audit were unusual and fully explained as to why they existed. However, it was recognized that the Department's controls could be strengthened by re-writing the PMIs noted above. It is the responsibility of the supervisor to ensure that Network Access User (NUAR) Forms are timely sent to Probation IT, within three business days of separation. Supervisors are advised that NUAR forms can even be sent in advance of a separation date, with an effective date noted on the form. Simultaneously, Division personnel initiate a Personnel Assignment Worksheet (PAW) that describes any HR action that an employee is taking. The PAW is sent to the Professional Standards Division (PSD) for final approval and processing. Once approved, the PAW is scanned and electronically distributed to all Department personnel on a need-to-know basis, including IT. When a more immediate action is necessary, an e-mail from an authorized PSD employee to IT is acceptable for IT to terminate employee access to systems. Last, Separation Reports generated by PSD and sent to IT are also acceptable to terminate employee system access. Whether IT receives the NUAR form directly from the employee's supervised chain of command or it receives a PAW, Separation Report or other authorized e-mail from PSD, a separated employee is to be removed within two business days of receipt of an acceptable form. Now, employee supervisors, Professional Standards Division personnel and IT personnel have a stronger and more efficient process to ensure network user access has been terminated timely for separated employees. The Department considers actions for this finding to be fully implemented.

Information Technology General Controls (2 Audit Recommendations)

11. Ensure there are adequate system controls in the Integrated Probation Financial System (IPFS) to provide for proper segregation of duties for the Grand Avenue Office Accounting Staff to ensure that employees who authorize and finalize transactions in the IPFS do not have the ability to make unauthorized changes to Statement of Cost information.

    Probation's Response: Concur. The Department will put additional controls in place to strengthen PFS' editing processes to ensure proper segregation of duties for staff. This initiative will require dedicated IPFS programming resources, to be identified and prioritized as described in number 1, above.

12. Terminate network user access for separated employees in a timely manner.

    Probation's Response: Concur. Probation Management believes Department controls are adequate to ensure that only authorized users have access to its systems. It re-wrote its IT Security and Systems Access Procedure Manual Items (PMIs), effective 12/1/2011. The one occurrence found during the audit was an anomaly. However, it was recognized that the Department's controls could be strengthened by re-writing the PMIs noted above. The revised process is fully described in number 10, above. The Department considers actions for this finding to be fully implemented.