



PETER HUGHES, Ph.D., CPA, CIA, CFE, CITP
Director

400 Civic Center Drive West
Building 12, Room 232
Santa Ana, California 92701-4521

(714) 834-5475 (714) 834-2880

INTERNAL AUDIT DEPARTMENT

July 10, 2002

TO: Stephanie Lewis
Chief Probation Officer

SUBJECT: Management Letter on Audit of Probation Juvenile Accounts

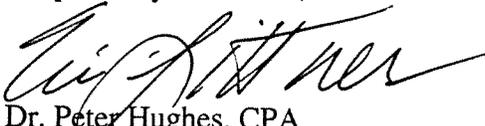
Attached is our Management Letter on the Audit of Probation Department Internal Controls Over Juvenile Records and Accounts for the Fiscal Years Ending June 30, 2000 and June 30, 2001 (Audit No. 2105).

The management letter contains one audit recommendation. Your response to our recommendation has been included in the management letter and the complete text of the responses are attached as Appendix A.

Should you have any questions or desire additional information, please contact Alan Marcum, Audit Manager, at 834-4119 or Eli Littner, Deputy Director, at 834-5899.

Thank you for your courtesy and cooperation.

Respectfully submitted,

for 
Dr. Peter Hughes, CPA
Director, Internal Audit

/PH:nni
Attachment

Other recipients of this report:

Members, Board of Supervisors
Members, Audit Oversight Committee
Michael Schumacher, Ph.D, County Executive Officer
Foreman, Grand Jury
Darlene J. Bloom, Clerk of the Board
David E. Sundstrom, Auditor-Controller
Jim McConnell, Assistant Auditor-Controller, Central Operations
Colleene Preciado, Chief Deputy Probation Officer
Walter W. Watanabe, Director, Probation/Administrative and Fiscal Division

**ORANGE COUNTY PROBATION DEPARTMENT
MANAGEMENT LETTER
ON AUDIT OF PROBATION DEPARTMENT
INTERNAL CONTROLS OVER
JUVENILE RECORDS AND ACCOUNTS
FOR THE FISCAL YEARS ENDING
JUNE 30, 2000 AND JUNE 30, 2001**

Issued: July 10, 2002

Audit Number 2105

Audit Director:	Dr. Peter Hughes, CPA, CIA, CITP
Deputy Director:	Eli Littner, CPA, CIA
Audit Manager:	Alan Marcum, CPA, CIA
Auditor In-Charge:	Nancy N. Ishida, CPA, CIA
Senior Auditor:	Michael Dean, CIA
Senior Auditor:	Leigh Riddle, CIA
Senior Auditor:	Carol Swe, CPA, CIA



**INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE**

**ORANGE COUNTY PROBATION DEPARTMENT
MANAGEMENT LETTER
ON AUDIT OF PROBATION DEPARTMENT
INTERNAL CONTROLS OVER
JUVENILE RECORDS AND ACCOUNTS
FOR THE FISCAL YEARS ENDING
JUNE 30, 2000 AND JUNE 30, 2001**

TABLE OF CONTENTS

	<u>Page No.</u>
MANAGEMENT LETTER	1
Findings, Recommendations, and Responses.....	3
I. General Ledger Accrual	3
APPENDIX A: Probation Department Management Responses (Full Text).....	5



PETER HUGHES, Ph.D, CPA, CIA, CFE, CITP
Director

400 Civic Center Drive West
Building 12, Room 232
Santa Ana, California 92701-4521

(714) 834-5475 Fax: (714) 834-2880

INTERNAL AUDIT DEPARTMENT

File No. 2105

July 10, 2002

MANAGEMENT LETTER

Stephanie W. Lewis
Chief Probation Officer
909 N. Main Street
Santa Ana, CA 92701

Pursuant to Section 275 of the Welfare & Institutions Code, we have audited the Probation Department Internal Controls Over Juvenile Records and Accounts for the Fiscal Years Ending June 30, 2000 and June 30, 2001 and have issued our report dated July 10, 2002.

In planning and performing our audit, we noted certain matters involving the internal controls and its operations that we consider to be reportable conditions under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that in our judgement, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement.

The significant deficiencies we observed are discussed in the Findings, Recommendations, and Responses section of this report and should be corrected to strengthen the internal controls and enhance assurance that internal control procedures are adequate to achieve reliability of financial reporting.

The Chief Probation Officer is responsible for establishing and maintaining the internal control framework for the Department. In fulfilling this responsibility, judgments by management are required to assess the expected benefits and related costs of internal control framework policies and procedures. The objectives of an internal control framework over financial reporting are to provide management with reasonable, but not absolute, assurance that reliability of financial reporting is achieved with established criteria and management's policies.

Stephanie W. Lewis
July 10, 2002

This report was discussed with representatives of the Probation Department management; and their responses have been incorporated into the report. This report is intended solely for the use of the Probation management and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

We appreciate the cooperation and assistance extended to us by the personnel of the Probation Department during our examination.

Respectfully submitted,


for Dr. Peter Hughes, CPA
Director, Internal Audit

Distribution:

Members, Board of Supervisors
Members, Audit Oversight Committee
Michael Schumacher, Ph.D, County Executive Officer
Foreman, Grand Jury
Darlene J. Bloom, Clerk of the Board
David E. Sundstrom, Auditor-Controller
Jim McConnell, Assistant Auditor-Controller, Central Operations
Colleene Preciado, Chief Deputy Probation Officer
Walter W. Watanabe, Director, Probation/Administrative and Fiscal Division

FINDINGS, RECOMMENDATIONS, AND RESPONSES

I. General Ledger Accrual

Probation controls over financial reporting could be improved in the following areas:

1. Fines, fees, penalty assessments, and other court-ordered payments are not recorded on the County general ledger until payments have been received by Probation.
2. Legislatively authorized fees billed to clients to recover County service costs are not recorded on the County general ledger until the time client payments are received by Probation.

The Probation Financial System (PFS) is the subsidiary ledger for Probation that is used to maintain client financial information for juvenile and adult probationers as well as financial information regarding parental obligations. Probation primarily collects two types of cash receipts from clients.

The first type of cash collected is made up of court-ordered obligations such as fines, fees, penalty assessments, and victim restitution. These obligations are mainly comprised of “monies held for others” that are deposited to the Probation trust fund and later disbursed to other entities such as the State, cities, or victims of crimes. The Probation Department records these client obligations in the PFS based on information in the court orders. However, Probation does not record a receivable in the general ledger for these types of monies. These transactions are not recorded in the general ledger until client payments are received and deposited.

The second type of cash collected from clients is made up of legislatively authorized fees for County services such as those for legal defense and institutional care and support, which are used to recover County costs for services already rendered to the clients. Obligations for these fees are recorded in PFS at the time that billing information is uploaded to PFS.

When payments are received from clients, Probation records this second type of cash collection as Probation revenue, another department’s revenue, or a combination of both. Probation does not record a receivable on the general ledger for these revenues. These monies are not reflected in the general ledger until the time client payments have been received by Probation and recorded as revenue.

Probation currently records these transactions using the cash basis of accounting, which is not appropriate for these types of transactions. Generally Accepted Accounting Principles (GAAP) of the United States require that revenues and expenditures be recorded using an accrual method of accounting.

Recommendation No. 1

We recommend that Probation work with the Auditor-Controller's Office in establishing the correct accounting entries for these types of financial transactions and in determining the proper timing for the recordation of these transactions.

Probation Response:

The Probation Department concurs with this recommendation and in consultation with the Auditor-Controller's Office intends to convert from a cash to an accrual method of accounting in the recordation of Probation's restitution, fine and fee collections. Probation will endeavor to establish appropriate accrual amounts for these transactions by the end of fiscal year 2002-03 with the ultimate goal of linking its receivables with the County's general ledger system when CAPS is updated and the current CUBS central receivable/collections system is replaced.



COUNTY OF ORANGE
MEMORANDUM

COUNTY EXECUTIVE OFFICE

JUN 26 2002

TO: Dr. Peter Hughes, CPA
Director
Internal Audit Department

Via Michael Schumacher, Ph. D. _____
County Executive Officer

FROM: Stephanie Lewis *Stephanie Lewis*
Chief Probation Officer

DATE: June 24, 2002

SUBJECT: RESPONSE TO MANAGEMENT LETTER

RECEIVED
INTERNAL AUDIT DEPARTMENT
2002 JUL -5 AM 11:23

Following is the Probation Department response to your draft Management Letter, dated May 31, 2002, wherein a recommendation is made for the Probation Department to work with the Auditor-Controller's Office in establishing the correct accounting entries for financial transactions and in determining the proper timing for the recordation of these transactions.

The Probation Department concurs with this recommendation and in consultation with the Auditor-Controller's Office intends to convert from a cash to an accrual method of accounting in the recordation of Probation's restitution, fine and fee collections. Probation will endeavor to establish appropriate accrual amounts for these transactions by the end of fiscal year 2002-03 with the ultimate goal of linking its receivables with the County's general ledger system when CAPS is updated and the current CUBS central receivable/collections system is replaced.

If you have any questions relative to the foregoing response, please contact Walter Watanabe at 569-2296. Thank you.

SL:ww

Michael Schumacher
CEO Concur

cc: David E. Sundstrom, Auditor-Controller
Jim McConnell, Chief of Accounting Operations and Reporting

Stephanie Lewis, Chief Probation Officer
Orange County Probation Department
Santa Ana, California