



INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE

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**FOLLOW-UP
AUDIT OF PROBATION
DEPARTMENT
INTERNAL CONTROL OVER
JUVENILE RECORDS AND
ACCOUNTS**

(ORIGINAL AUDIT NO. 2512)

As of September 30, 2006

AUDIT NUMBER: 2572

REPORT DATE: NOVEMBER 27, 2006

Audit Director:	Peter Hughes, Ph.D., CPA
Deputy Director:	Eli Littner, CPA, CIA
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**Follow-Up Audit of Probation Department
Internal Controls Over
Juvenile Records and Accounts
Original Audit No. 2512**

As of September 30, 2006

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Transmittal Letter

Audit No. 2572

November 27, 2006

TO: Colleene Preciado, Chief Probation Officer

FROM: Peter Hughes, Ph.D., CPA, Director
Internal Audit Department

SUBJECT: Follow-Up Audit of Probation Department Internal Controls
Over Juvenile Records and Accounts, Original Audit No. 2512

We have completed an Initial Follow-Up Audit on Probation Department Internal Controls Over Juvenile Records and Accounts, (Original Audit No. 2512). Our audit was limited to reviewing, as of September 30, 2006, actions taken to implement the recommendations in our audit report dated February 7, 2006.

Please note, we have implemented a more structured and rigorous Follow-Up Audit process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). As a matter of policy, our first Follow-Up Audit will now begin no later than six months upon the official release of the report. The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our second Follow-Up Audit will now begin at 12 months from the release of the original report, by which time all audit recommendations are expected to be addressed and implemented.

At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

Because there are five recommendations pending implementation, we have attached a Second Follow-Up Audit Report Form. The Probation Department should complete this template as our audit recommendations are implemented. When we perform our Second Follow-Up Audit approximately 12 months from the release of the original report, we will need to obtain the completed document to facilitate our review.

As the Director of Internal Audit, I now submit a monthly audit status report to the Board of Supervisors (BOS) where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

As always, the Internal Audit Department is available to partner with the Probation Department so it can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendations.

Attachment

Other recipients of this report:

Members, Board of Supervisors

Members, Audit Oversight Committee

Thomas G. Mauk, County Executive Officer

Greg Ronald, Chief Deputy Probation Officer

Frank Kim, Director, Administrative and Fiscal Division, Probation

Lorna Winterrowd, Administrative Manager, Administrative and Fiscal Division, Probation

David E. Sundstrom, Auditor-Controller

Jan Grimes, Assistant Auditor-Controller

Foreperson, Grand Jury

Darlene J. Bloom, Clerk of the Board of Supervisors



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INTERNAL AUDITOR'S REPORT

Audit No. 2572

November 27, 2006

TO: Colleene Preciado, Chief Probation Officer

SUBJECT: Follow-Up Audit of Probation Department Internal Controls Over Juvenile Records and Accounts, Original Audit No. 2512

We have completed an Initial Follow-Up Audit on Probation Department Internal Controls Over Juvenile Records and Accounts, (Original Audit No. 2512). Our audit was limited to reviewing, as of September 30, 2006, actions taken to implement the recommendations in our audit report dated February 7, 2006.

The original audit report contained eight (8) recommendations. Our Follow-Up Audit indicated three (3) recommendations have been fully implemented, three (3) recommendations were partially implemented, and two (2) recommendations were in process of implementation. We found that the Probation Department was committed and responsive to implementing our recommendations, and we commend them on the actions taken to implement the recommendations.

We believe the remaining five recommendations are still appropriate and further efforts should be made to fully implement them. The recommendations that have not been fully implemented are noted below along with a comment on the current status. The item number from the February 7, 2006 report is shown in parentheses after each heading. Note: Two items contained in this Follow-Up Audit report were initially considered "Significant Issues" and three items were considered a "Control Finding."

1. **Review of PFS Error File (Recommendation No. 1)**

Recommendation No. 1: Probation Management ensure timely review, and resolution of the PFS Error File. (**Significant Issue**)

Current Status: **Partially Implemented.** The SOC Exception Report (PFS Error file) was reduced from approximately 1,000 pages to 243 pages as of October 12, 2006. The report reduction is due to the removal of amounts past statute and no longer billable and charges that are unable to load because of a bad address. These are now included daily in a PFS on-line report for review and resolution by Collection Officers in conjunction with their daily workload.

Due to the Collection Officers current workload, the SOC Exception Report is reviewed when workload permits. Probation informed us that the current SOC Exception Report format does not allow for timely review and resolution of exceptions. Probation is currently working with

Probation Data Systems on a new SOC Exception Report format. We were informed that once the new report is established, Probation will take corrective action to resolve prior exceptions and Collection Officers will review new exceptions for resolution on a daily basis.

Probation Planned Action:

Probation Collections is currently working with Probation Data Systems to design and implement a report that better formats the SOC report for the Collection Officers' actions. The Work Order for this report is currently in draft form. Due to programming constraints, it is expected that implementation of this report will occur after implementation of corrective actions for item number 2 (Suspense), below. Once the modified report is in place, daily action by Collection Officer will be taken. Estimated Completion date to be determined, dependent on programming resources.

2. **Suspense Transaction Journal is not Reviewed Timely (Recommendation No. 2)**

Recommendation No. 2: Probation Management ensure timely review, monitoring and resolution of the suspense account. (**Significant Issue**)

Current Status: In Process. Probation Fiscal Management submitted a workorder to Probation Data Systems requesting enhanced suspense features and reporting capability. Probation Data Systems has a full time consultant working on the suspense workorder which will require restructure of the suspense file in PFS. Probation Data Systems' forecasted completion for the suspense workorder is March 2007. The enhanced suspense file will facilitate regular review and monitoring of the suspense file by the Collection Unit.

Probation Planned Action:

Probation successfully secured data systems, collections and accounting resources over the past three months to address this problem. Management of the suspense account is the first priority being addressed by the team of data systems, accounting and collections resources. Although the Department has invested heavily in programming resources in the past, this is the first time that funding and resources have been set aside exclusively for the purposes of resolving the problems created by Probation's suspense account. A work order has been written and agreed upon by the team and programming has begun to set workflow and management controls in place over an automated posting process for much of the transaction volume currently in the Suspense account. At this time, it is unknown how long the programming effort will take to complete this process. In the interim, extra help employees have just been hired in the past month to clear suspense manually, using processes in place now. Estimated Completion date is March, 2007.

3. **Abstracts of Judgment are not Filed Timely (Recommendation No. 3)**

Recommendation No. 3: We recommend that Probation Management strengthen internal controls to ensure timely processing of Abstracts of Judgment. (**Control Finding**)

Current Status: Partially Implemented. The Collection Unit is reviewing payments on parental non-restitution stipulation judgments weekly and submitting Abstracts of Judgment requests to Probation Accounting for delinquent Stipulation Judgments. On September 25, 2006, the Collection Unit submitted 111 Abstracts of Judgment requests to Probation Accounting for processing. However, due to limited staffing, the Collection Unit and Probation Accounting are unable to process the Abstracts of Judgment within a timely manner.



The Probation Fiscal & Administrative Division received authorization to hire three extra help employees to assist the Collection Unit and Probation Accounting process Abstracts of Judgment. Probation expects to hire the extra help employees within the next few months.

Probation Planned Action:

Probation's Collections and Accounting units have been processing Abstracts of Judgment with very limited resources. Concentrated project efforts by both units have prevented further erosion in cycle time for filings. Extra help employees and overtime measures will be continued for the near term, in order to attain the goal of a 60 day interval for filings. Resources to staff the abstracts filing operation appropriately are being evaluated at this time. Scheduled completion date is 6/30/07.

4. **Abstracts of Judgments are not Monitored (Recommendation No. 4)**

Recommendation No. 4: We recommend that Probation create a PFS report and utilize the PFS report to properly monitor the processing of Abstracts of Judgment. (**Control Finding**)

Current Status: Partially Implemented. Probation Data systems created two PFS reports for Probation Accounting to properly monitor the processing of Abstracts of Judgment. However, due to limited staffing, Probation Accounting is unable to utilize the reports to properly monitor the processing of Abstracts of Judgment.

As noted above, the Probation Fiscal & Administrative Division received authorization to hire three extra help employees to assist the Collection Unit and Probation Accounting process Abstracts of Judgment. Probation expects to hire the extra help employees within the next few months.

Probation Planned Action:

Please see Probation's response to number 3, above. The recommended reports have been created. With the increased staff hours available as identified above, Probation Accounting expects to begin to utilize the PFS reports to monitor the processing of Abstracts of Judgment. Estimated Completion date is February, 2007.

5. **Inadequate Monitoring of Commission Revenue (Recommendation No. 6.B)**

Recommendation No. 6.B: We recommend that Probation Management ensure that commission payments are in accordance with the price agreement. (**Control Finding**)

Current Status: In Process. CEO/Purchasing entered into a Master Revenue Contract with Automated Hot Food Systems Inc. for coin-operated and debit card vending machines/services for use by all County agencies and departments effective May 1, 2006. The Master Revenue Contract requires the vendor to submit monthly guaranteed revenue checks and monthly gross sales rebate checks to the Auditor-Controller. The vendor is required to submit monthly revenue reports which should include monthly gross sales receipts by machine and commissions paid to the County. Fifteen percent of the gross sales receipts collected from the debit machines located at the Juvenile Hall and the Youth Guidance Center is to be deposited into the Ward Welfare Trust Fund.

As of November 1, 2006, the vendor submitted payment and commission reports for the three month period of May 2006 through July 2006. However, Probation's 15% of debit card gross



receipts were inappropriately applied to the General Fund as opposed to the Ward Welfare Fund. Probation is working with Auditor-Controller staff and CEO Purchasing to resolve the issue.

The vendor provided a Commission Summary Report of gross receipts by vending machine. Probation reviewed the statements for compliance with the Master Revenue Contract. Probation identified issues with the commission report for the debit card vending machines and submitted questions to CEO Purchasing for follow-up with the vendor. Resolution of the commission report questions is pending.

Probation Planned Action:

Probation is working closely with CEO Purchasing and the Auditor-Controller staff to favorably resolve this issue. As of November 1, 2006, the vendor submitted payment and commission reports for the three month period of May 2006 through July 2006. However, Ward Welfare's commissions were mistakenly applied to the General Fund instead of the Ward Welfare Trust Fund. A Journal Voucher is being prepared by the Auditor-Controller's office to re-direct the commissions from the General Fund to Ward Welfare Trust.

Probation is working with CEO Purchasing to resolve disposition of commissions earned since July. In addition, Probation has reviewed the vendor's statements for compliance with the Master Revenue Contract and is working with CEO Purchasing to resolve outstanding issues resulting from that review. Completion date to be determined in conjunction with CEO Purchasing and the Auditor/Controller's offices.

We appreciate the courtesy and cooperation extended to us by the personnel of the Probation Department. If we can be of further assistance, please contact me or Eli Littner, Deputy Director, at 834-5899, or Alan Marcum, Audit Manager at 834-4119.



Peter Hughes, Ph.D., CPA
Director, Internal Audit

Attachment A – Report Item Classifications

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Thomas G. Mauk, County Executive Officer
- Greg Ronald, Chief Deputy Probation Officer
- Frank Kim, Director, Administrative and Fiscal Division, Probation
- Lorna Winterrowd, Administrative Manager, Administrative and Fiscal Division, Probation
- David E. Sundstrom, Auditor-Controller
- Jan Grimes, Assistant Auditor-Controller
- Foreperson, Grand Jury
- Darlene J. Bloom, Clerk of the Board of Supervisors



ATTACHMENT A: Report Item Classifications

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

- **Material Weaknesses:**
Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address “Material Weaknesses” brought to their attention immediately.

- **Significant Issues:**
Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.

- **Control Findings:**
Audit findings that require management’s corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.

