INTERNAL AUDIT DEPARTMENT

COUNTY OF ORANGE

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FIRST FOLLOW-UP AUDIT OF THE INTERNAL CONTROL REVIEW OF PROBATION DEPARTMENT

REVOLVING FUND

As of April 18, 2007

AUDIT NUMBER: 2636-H **REPORT DATE: AUGUST 30, 2007**

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Deputy Director:	**Eli Littner, CPA, CIA**
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The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors.

First Follow-Up Audit of the
Internal Control Review of
Probation Department
Revolving Fund

Original Audit No. 2598

As of April 18, 2007

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COUNTY OF ORANGE
BOARD OF SUPERVISORS'
INTERNAL AUDIT DEPARTMENT

Transmittal Letter

Audit No. 2636-H

August 30, 2007

TO: Colleene Preciado, Chief Probation Officer
Probation Department

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

SUBJECT: First Follow-Up Audit of the Internal Control Review of Probation Department Revolving Fund, Original Audit No. 2598, Issued October 3, 2006

We have completed a First Follow-Up Audit of the Probation Department revolving fund processes. Our audit was limited to reviewing, as of April 18, 2007, actions taken to implement the six recommendations in our audit report dated October 3, 2006. The results of our Follow-Up Audit along with a new finding we identified are discussed in the **Internal Auditor's Report** following this transmittal letter.

Please note, we have 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 now begins at six months upon the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

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 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 some recommendations are pending implementation and there is a new finding and recommendations, we have attached a Second Follow-Up Audit Report Form. Probation should complete this template as our audit recommendations are implemented. When we perform our Second Follow-Up Audit, we will need to obtain the completed document to facilitate our review.

Each month I submit an **Audit Status Report** to the 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 Follow-Up Audit will be included in a future status report to the BOS.

As always, the Internal Audit Department is available to partner with you so that Probation 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
William Mahoney, Deputy CEO, Government/Public Services
Greg Ronald, Chief Deputy Probation Officer, Probation/Special Services
Frank Kim, Director, Probation/Administrative and Fiscal Division
Lorna Winterrowd, Fiscal Manager, Probation/Administrative and Fiscal Division
Federico Perez, Accounting Manager, Probation/General Accounting Office
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COUNTY OF ORANGE
BOARD OF SUPERVISORS'
INTERNAL AUDIT DEPARTMENT

INTERNAL AUDITOR'S REPORT

Audit No. 2636-H

August 30, 2007

TO: Colleene Preciado, Chief Probation Officer
Probation Department

SUBJECT: First Follow-Up Audit of the Internal Control Review of Probation Department Revolving Fund, Original Audit No. 2598, Issued October 3, 2006

We have completed a First Follow-Up Audit of the Probation Department revolving fund processes. Our audit was limited to reviewing, as of April 18, 2007, actions taken to implement the six recommendations made in our original audit report.

The original audit report contained six (6) recommendations. Our First Follow-Up Audit found the following:

- Two (2) recommendations were fully implemented.
- Two (2) recommendations were partially implemented.
- Two (2) recommendations are closed.

The four recommendations that were either partially implemented or partially implemented/closed are noted below along with a comment on their current status. The item number from the October 3, 2006 report is shown in parentheses after each heading. A **new finding**, which is considered a Significant Issue, and resulting two recommendations is also discussed in detail below. See *Attachment A* for a description of Report Item Classifications.

1. FUND RECONCILIATIONS (Recommendation No. 1)

We recommend the Probation Department ensure revolving fund reconciliations are properly prepared to the authorized fund amount, performed monthly, and have documented supervisory reviews.

Current Status: **Partially Implemented/Closed.** To determine if the recommendation had been implemented, we judgmentally selected February and March 2007 reconciliations to review for the General Accounting Office, Santa Ana Office, Juvenile Hall, and the Youth Guidance Center. Based on our review, we noted that fund reconciliations were properly prepared and reviewed monthly at the General Accounting Office (GAO) and Santa Ana Office. However, due to staffing issues (retirements and vacancies), fund reconciliations were not performed monthly at the Juvenile Hall and Youth Guidance Center (YGC) locations.

The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors.

Subsequent to completing our fieldwork, Juvenile Hall and the Youth Guidance Center began preparing monthly fund reconciliations. In addition, we noted the GAO is now performing quarterly petty cash audits at all locations and plans to conduct them on an on-going basis. Because staffing issues may preclude the completion of monthly fund reconciliations, and there is a process in place to conduct independent quarterly pretty cash audits, we will consider this recommendation closed for follow-up purposes.

2. SEGREGATION OF DUTIES (Recommendation No. 2)

We recommend the Probation Department ensure the revolving fund reconciliations are prepared by an individual with no other revolving fund duties. Also, Probation should ensure the revolving fund custodians do not have any other cash handling responsibilities. If these steps are not possible due to limited staffing, management should ensure the reconciliations undergo a detailed supervisory review at the location, and all other cash responsibilities handled by the custodians should be monitored by their supervisors.

Current Status: **Partially Implemented/Closed.** Our follow-up noted that the custodians at all locations are still performing the fund reconciliations and all, except YGC, are sending them to the GAO for review. This process does not enable the reviewer at GAO to verify all amounts noted on the fund reconciliations (i.e., cash on hand, unreplenished items). At YGC, a supervisor is reviewing the petty cash reconciliations. We also noted there were no changes since our original audit concerning petty cash custodians also having other cash handling responsibilities, such as being custodians of special checking accounts and change funds.

Probation recognizes that the best practice of segregation of duties is to have separate personnel in charge of each cash handling function for a given location. Where feasible, Probation has implemented or is implementing full segregation of duties in regards to revolving funds and cash handling for other functions. However, that practice is not always feasible in Probation locations, due to staffing limitations. For each location where segregation of duties is not fully operational, Probation will ensure onsite supervisory review of each function performed. Probation also assumes any risk associated with this noted deviation from best practice of segregation of duties.

Lastly, Probation plans to combine the Process Service Account and the Special Checking Account into one and make changes to other cash funds noted in the original audit. This will eliminate the custodian of multiple accounts concern.

Because staffing issues may not enable the above duties to be segregated, Probation has opted to perform detailed supervisory reviews. GAO is also conducting independent, quarterly petty cash audits, which is an effective control that will detect any errors or irregularities, especially if conducted on a surprise basis. Therefore, we will consider this recommendation closed for follow-up purposes.

3. TRAVEL CASH ADVANCES (Recommendation No. 5)

We recommend the Probation Department ensure the Mileage and Other Expenses Claim forms are submitted within five working days after the completion of the event for which the advance was made.

Current Status: **Partially Implemented.** We judgmentally selected seven recent cash advances for review. Five of the seven Mileage and Other Expenses Claim forms were not submitted within five working days after the completion of the event for which the advance was made. The number of working days late for submission of the claim forms was between 2 to 102 days late.

We also reviewed the GAO's April 2007 *Cash Advance Recipient List*, of which 17 claim submissions were delinquent, some dating back to May 2006.

We were informed since the beginning of calendar year 2007, Fiscal and Administrative Services has been attending director meetings and contacting executive management to make them aware of the problems they are having with obtaining timely Mileage and Other Expenses Claim forms and supporting documentation from employees. We were recently informed by Fiscal and Administrative Services that executive management will receive lists of employees who are delinquent in turning in their paperwork for cash advances.

Probation Department Planned Action:
Concur. These controls are noted in Probation's Procedural Manual, item number 1-5-208. This item has undergone task force review to further strengthen department controls. Probation has drafted an e-process to address this challenge. One component of that process that has been fully implemented is an e-reminder now sent to cash advance recipients to reinforce the requirement to submit Claim Forms within five working days after event completion. The rollout is being done under the direction of the new Accounting Manager, in connection with the Professional Standards Division where Claims are in connection with Department travel/training events. Note: all 17 of the delinquent cash advance transactions cited in the finding have been settled.

4. TRAVEL CASH ADVANCES (Recommendation No. 6)

We recommend the Probation Department ensure the Mileage and Other Expense Claim forms contain an authorized signature prior to disbursing funds and submitting the forms for reimbursement.

Current Status: **Partially Implemented.** We judgmentally selected seven recent cash advance transactions to determine whether the Mileage and Other Expense Claim forms contained an authorized signature. Two of seven Mileage and Other Expenses Claim forms did not contain an authorized signature.

Probation Department Agency Planned Action:
Concur. This finding stems from a Probation Department misunderstanding that authorized signatures on the Check Request Forms associated with Claim forms were a sufficient control. After discussion with Internal Audit, Probation concurs with the finding and has fully implemented the recommendation. This has been corrected. All claims are signed on the Mileage and Other Expense Claim form. Additionally, desk procedures now include that the forms be checked for the required authorized signature as completed, and again checked by processor of reconciliation before they are submitted to the Auditor-Controller.

5. **New Finding: Unpaid Travel Cash Advance Reimbursements**
During our Follow-Up Audit, a new issue came to our attention pertaining to our recommendations involving travel cash advances. Our new finding and recommendations are discussed below and is considered a **Significant Issue**. See *Attachment A* for a description of report item classifications.

Our review of GAO's revolving fund reconciliations noted a list of incomplete cash advance transactions dating back to April 2006. The Mileage and Expense Claim form and supporting documents for each of these transactions had been received; however, they had not been processed and closed due to workload issues cited by the custodian of the Special Checking Account. We noted monies that Probation owes to the employees for expenses exceeding the cash advances had not been paid ($2,874.05), and monies owed back to Probation by employees had not been collected ($857.09).

Recommendations:

A. We recommend Probation process all outstanding travel advance claims to reimburse employees for expenses exceeding cash advances, and to collect monies due to Probation for expenses less than the cash advances.

B. We also recommend steps be taken to ensure timely processing of all future travel advance claims.

Probation Department Management Response:
Concur. Probation Management has reviewed and strengthened controls to ensure timely processing of requests and reconciliation of outstanding cash advances. Procedures are in place to ensure timely processing of future travel advance claims. Note: All claims for amounts cited in the audit finding have been processed. The amount of $2,874.05, representing monies owed by Probation to employees for expenses exceeding the cash advances have been paid, and Probation has collected $857.09, representing monies owed to Probation by employees.

We appreciate the courtesy and cooperation extended to us by the personnel of the Probation Department during our Follow-Up Audit. If we can be of further assistance, please contact me or Eli Littner, Deputy Director at 834-5899, or Michael Goodwin, Senior Audit Manager at 834-6066.

Peter Hughes

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
William Mahoney, Deputy CEO, Government/Public Services
Greg Ronald, Chief Deputy Probation Officer, Probation/Special Services
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Lorna Winterrowd, Fiscal Manager, Probation/Administrative and Fiscal Division
Federico Perez, Accounting Manager, Probation/General Accounting Office
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 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.

COUNTY OF ORANGE

MEMORANDUM

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

via Thomas G. Mauk
County Executive Officer

FROM: Colleene Preciado
Chief Probation Officer

DATE: August 22, 2007

SUBJECT: Responses to Internal Audit Findings, Audit Number 2636-H (first follow-up to Original Audit No. 2598, issued October 3, 2006)

Attached are the Probation Department's responses to your draft report (also attached). As noted in your July 19, 2007 cover letter, the follow-up report to Original Audit No. 2598, issued October 3, 2006, has been assigned a new Audit No. of 2636-H.

Three findings require responses, attached herein: Nos. 5 and 6 from the Original Audit No. 2598, and a new finding in Follow-up Audit No. 2636-H. Four of the original six recommendations (Nos. 1 through 4) have been implemented and are now closed.

This document is being routed to you through the County Executive Officer for his review and comment.

If you have any questions, please contact Frank Kim at 714.937.4728. Thank you.

CP: lw
Attachments

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Colleene Preciado, Chief Probation Officer
Orange County Probation Department
Santa Ana, California

Internal Audit 2636-H (first follow-up to Original Audit No. 2598, issued October 3, 2006) - Preliminary Responses

Probation appreciates the opportunity to have Interrnal Audit review its operation regarding the Department's management of its revolving funds. Probation is pleased to report that corrective actions have been implemented for all of the findings, as detailed below. *Please note: Probation's Responses correspond with the Internal Auditor's report, listed by Recommendation number or title of finding.*

Recommendation Number 5.

Concur. These controls are noted in Probation's Procedural Manual, item number 1-5-208. This item has undergone task force review to further strengthen department controls. Probation has drafted an e-process to address this challenge. One component of that process that has been fully implemented is an e-reminder now sent to cash advance recipients to reinforce the requirement to submit Claim Forms within five working days after event completion. The rollout is being done under the direction of the new Accounting Manager, in connection with the Professional Standards Division where Claims are in connection with Department travel/training events. Note: all 17 of the delinquent cash advance transactions cited in the finding have been settled.

Recommendation Number 6.

Concur. This finding stems from a Probation Department misunderstanding that authorized signatures on the Check Request Forms associated with Claim forms were a sufficient control. After discussion with Internal Audit, Probation concurs with the finding and has fully implemented the recommendation. This has been corrected. All claims are signed on the Mileage and Other Expense Claim form. Additionally, desk procedures now include that the forms be checked for the required authorized signature as completed, and again checked by processor of reconciliation before they are submitted to the Auditor-Controller.

Recommendation (unnumbered): UNPAID TRAVEL CASH ADVANCE REIMBURSEMENTS.

Concur. Probation Management has reviewed and strengthened controls to ensure timely processing of requests and reconciliation of outstanding cash advances. Procedures are in place to ensure timely processing of future travel advance claims. Note: All claims for amounts cited in the audit finding have been processed. The amount of $2,874.05, representing monies owed by Probation to employees for expenses exceeding the cash advances have been paid, and Probation has collected $857.09, representing monies owed to Probation by employees.

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