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January 30, 2014

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SUBJECT: AUDIT OF PROBATION DEPARTMENT'S JUVENILE TRUST FUNDS

Introductory Remarks

In compliance with Article V, Section 6, of the San Bernardino County Charter and County Policy 02-02 entitled Internal Operational Auditing, we have completed an audit of the Probation Department's juvenile trust funds. We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

Background

The Probation Department (Department) provides temporary detention for minors generally between ages 12 and 18, awaiting court hearing, placement, or treatment as ordered by the court. The San Bernardino County Probation Department operates three Juvenile Detention and Assessment Centers. The Juvenile Detention and Assessment Centers' mission is to provide a safe, secure and healthy environment which ensures the dignity and fulfills the needs of legally detained minors. The Department has the fiduciary responsibility over variety of monies including monies for coinless phones and charges for services provided. The Department maintains trust funds used for the collection and disbursement of those funds.

Objectives, Scope and Methodology

The overall objectives were:

- To determine whether internal controls over the juvenile trust funds were effective, and
- To determine whether the Department complied with Welfare and Institutions Code (W&IC) Section 873.

The audit period was from July 1, 2006 through June 30, 2012. To achieve our objectives, we performed the following audit procedures:

- Interviewed Department staff
- Reviewed Department policies and procedures related to juvenile trust funds
- Performed walkthrough of activities
- Examined original source documents

- Examined system generated reports
- Reviewed pertinent documents

Conclusion

As a result of our audit, we concluded that the Probation Department had areas where their internal controls over juvenile trust funds could be improved and that the Department was substantially compliant with the Welfare and Institutions Code 873. We documented our findings and recommendations for improvement in the Findings and Recommendations section of this report.

We sent a draft report to the Probation Department on January 7, 2014 and discussed our findings with management on January 27, 2014. The Department's response to our recommendations is included within this report.

Findings and Recommendations

Finding 1: Correct commission amount from the telephone provider was not received for fiscal year 11-12.

Welfare and Institutions Code 873 (d) requires "any money, refund, rebate, or commission received from a telephone company or pay telephone provider when the money, refund, rebate, or commission is attributable to the use of pay telephones which are primarily used by confined wards or detainees while incarcerated" to be deposited in the Ward Welfare Fund. The Department entered into a master contract with the telephone provider Verizon for revenues generated from the collect-only telephones at various County Juvenile Halls, and the commission rate for the FY 06-07 through FY 10-11 was 33%. A new contract was entered with Global Tel*Link Corporation for FY 11-12. The new contract terms required the vendor to pay the County 50.5% of the monthly gross revenues generated by the telephone system. Even though the Department deposited all commission monies into the Ward Welfare Fund, based on the contract, the Department should have received 50.5% commission of the revenues for FY 11-12. Instead, the Department continued to receive commissions based on the 33% rate. The difference between the commission revenues received and the commission amount that should have been received is $13,274.

The Department was not comparing the contractual commission percentage to the amount received. Therefore, fewer funds were received that could have been spent for the benefit, education, and welfare of the wards or detainees.

Recommendation:
We recommend supervisory personnel review the commission revenues at least monthly to ensure they are receiving the correct percentage amount and work with Tel*Link to get the net difference in commission.

Management's Response:
We concur with this finding. This issue occurred because Fiscal Staff were not advised of the new contract negotiated on behalf of the department. During the period of the audit and when the auditors requested a copy of the contract Probation fiscal staff found the change and immediately requested reimbursement for past due funds and future compliance. In the future, Fiscal Staff will be provided with a copy of any new contracts by the Staff Analyst.
The discrepancy between the contracted rate and the actual rate paid was brought to the attention of the vendor. Payment for the retroactive period was received and deposited into the Trust on 1/17/14. Subsequent payments will reflect the corrected percentage. Fiscal Specialist who processes the distribution of revenue each month will ensure that the correct rate is credited each month.

Auditor's Response:
The Department's actions and planned actions will correct the deficiency noted in the finding.

Finding 2: Deposits were not made timely.

The County's Internal Controls and Cash Manual (ICCM) Chapter 9 – Bank Accounts, states that monies collected are to be deposited no later than the next business day when the dollar amount reaches $1,000, or at least weekly if lesser amounts are collected and that supervisors must verify deposits are intact. We reviewed 81 statistically selected deposits for timeliness and supervisory review.

- Fifty-nine (73%) of the sample selection had deposits that were not made in a timely manner.
- Eleven (14%) of the sample selection was related to the coinless phone revenue, which is the largest revenue source of the juvenile trust fund. All eleven (100%) sampled checks received from the telephone company were not deposited on a timely basis. On one occasion, a check was held 27 days prior to deposit.
- Eighty-one (100%) of the sample selection did not have evidence of supervisory review.

Supervisory review was not being performed to ensure deposits are being made accurately and on a timely basis. When cash is left for a long period of time in the safe and there is no review of the deposits by a supervisor, the chance of misappropriation increases.

Recommendation:
We recommend the Department follow the County's ICCM for depositing funds.
Receipts of $1,000 or more should be delivered to Fiscal Services Administration to be deposited the next business day and smaller amounts of monies collected should be deposited at least weekly. In addition, supervisory review over the deposits should be conducted to ensure accuracy and timeliness and the review should be documented by noting initials and date of review.

Management's Response:
We concur with this finding. In some instances, funds were not deposited weekly. Coinless phone revenue is received on a single check, with the revenue to be split between multiple separate trust funds. This requires a reconciliation and distribution of the funds received based on location. Checks are held until a distribution is established. At that point, the check is deposited into the fund to receive the greatest percentage, and a check for the amount due to the other trust is subsequently written and deposited at the same time. In future, checks that are over $1000 will be immediately deposited, with correcting distributions between accounts completed at a later date.
The vast majority of funds held for deposit are from change returned from purchases, and as such are typically nominal. Funds are delivered by off-site personnel on a weekly basis. The department will ensure that funds are deposited weekly. A supervisor or manager will review and initial all future deposit slips.

Auditor's Response:
The Department's planned actions will correct the deficiency noted in the finding.

Finding 3: **Bank statements were not reconciled to the check register balance.**

The County's Internal Controls and Cash Manual Chapter 9 – Bank Accounts states that departments must reconcile their records to the bank statement each month. The employee doing the reconciliation should not have the authority to sign checks or deposit cash. The employee with authority to sign checks or deposit cash may complete the reconciliation if it is reviewed and signed by an employee of a higher-ranking job code. A review of 11 reconciliations revealed four (36%) had adjusted bank balances that were not reconciled to the check register balance. The employee who reconciles the trust fund bank statements is one of the fund custodians and there is no employee reviewing the reconciliations.

When bank reconciliations are not reviewed by someone other than the preparer, the risk of potential errors or misappropriation of funds increases.

Recommendation:
We recommend all reconciliations be reviewed on a timely basis by an employee of a higher ranking job code and be supported by the appropriate documents. Review of each bank reconciliation should include the review of reconciling items and signing and dating each reconciliation as evidence the review was performed.

Management's Response:
Bank statements are reconciled each month utilizing Quick Books software reconciliation function. This includes the prior statement balance, the current statement balance, verifying checks and fees, deposits and credits that have cleared on that statement. The software generates

a reconciliation summary and detail when a balance is achieved. The question raised relates to amounts listed on the detail page. The auditor noted a similar issue with a separate county department. We are not sure what causes this possible system anomaly, however, we do in fact reconcile each month. Within the current fiscal year, we have upgraded to a newer version of Quickbooks software. We will review and monitor reconciliations created in the newer version to determine if the issue noted persists within the newer version. Additionally, our Accountant will review our process for suitability to ensure that we are in compliance with reconciliation procedures. As noted, we are currently short staffed by 3 positions. Once at full staffing, we will review our procedures to reallocate the duty of reconciliation and review of reconciliations. In the interim, the Admin Services Supervisor or Admin Services Manager will review reconciliations.

Auditor's Response:
The Department's planned actions will correct the deficiency noted in the finding.

Finding 4: Established departmental procedures for Trust Fund Quarterly Reports were not followed.

The internal Probation Department Trust Funds Procedure #8 issued in 2009 states that Fiscal Services Administration should prepare a quarterly report of deposits, withdrawals and balances. The report is then submitted to the Chief Probation Officer, Deputy Chief Probation Officer of Detention Corrections Bureau, Deputy Chief Probation Officer of Community Corrections Bureau, Deputy Chief Administrator and to all Division Director level managers. Each Director is responsible for oversight and review of their quarterly activities. The copy of the face sheet attached with the report should be signed, dated and returned to the issuing Fiscal Specialist within 14 calendar days. We reviewed reports for FY 11-12 and discovered that the face sheets were either not signed and returned to the fiscal office within 14 days or not returned at all.

When there is no documentation of supervisory reviews, the risk for the potential misuse of trust funds increases.

Recommendation:
We recommend that the Department's management review the reports and return the proof of review to Fiscal Services Administration within 14 days as documented in the Departmental Trust Fund Procedure #8.

Management's Response:
We concur with this finding. The quarterly report is currently provided to all department management for review by interested parties. Our current procedure necessitating that all managers send a receipt acknowledgement will be reviewed to determine which managers should be responsible for oversight of the funds. Those that are deemed responsible parties will provide the necessary oversight.

Auditor's Response:
The Department's planned actions will correct the deficiency noted in the finding.

Finding 5: **Established departmental procedures for trust fund disbursements were not followed.**

The internal Probation Department Trust Funds Procedure #8 requires Supervisor and Director signatures on the Staff Request for Disbursement Form and that itemized receipts should be submitted to the Fiscal Specialist within 14 days from the date of purchase. It also states that the Requesting Party and their Supervisor shall sign and print their names on all receipts acknowledging that items purchased were approved by the director and are being used for the intended purpose. Receipts should contain a store name and date and purchases should not be commingled with personal purchases. In addition, items for date specific events must be purchased prior to or on the day of the event.
We reviewed 51 statistically selected disbursements from a population of 343 for compliance with the above departmental procedures. The following conditions were noted:

- One (2%) had supporting documentation attached to the staff request form which showed the purchase of unauthorized items. The employee requested funds for the purchase of hygiene items, such as shampoo, soap or toiletries. Instead, the attached receipt showed the purchase of organization bins.
- One (2%) did not have receipts or supporting documentation; therefore it is not known if the funds were used for personal or valid purchases.
- Five (10%) did not have receipts submitted to Fiscal within 14 calendar days.
- Twenty-one (41%) were either missing the required signatures of both the Requesting Party and their Supervisor on the receipts or only had one of the required two signatures present. In addition, three out of the twenty-one transactions did not have a detailed and dated receipt, such as the store name present on the receipt.
- Six (12%) did not have two approval signatures on the Request form.
- Three (6%) were for a specific month's canteens or birthdays, but had receipts that were dated after the month.
- Two (4%) had receipts that were mixed in with another request's receipts and submitted together, making it difficult to distinguish which charges were for which request.

When employees are not familiar with the Department's written procedures, there is an increase of risk for the potential misuse of trust funds.

Recommendation:
We recommend supervisory personnel provide training to staff to familiarize them with the Departmental policies and procedures. We also recommend that supervisory personnel should monitor and approve the disbursement process to ensure staff is complying with the procedures.

Management's Response:

We concur with this finding. We will review and possibly revise our departmental procedures related to trust funds to better reflect the intentions of the department. In some instances, our procedures have been interpreted in a way not intended. For example, part of the finding states that some requests do not have 2 approval signatures. In practice, the only signature actually required to incur an expense on behalf of the department is a Division Director or above. A supervisor signature is not required. The space for a supervisor signature is only intended to indicate chain of command, and provide the Division Director another avenue should he/she question the request. Fiscal Staff have already been reminded of the current requirement of the procedures and Fiscal Supervisors will monitor transactions to ensure they are being carried out appropriately.

Auditor's Response:
The Department's actions and planned actions will correct the deficiency noted in the finding.

Finding 6: **Internal controls over voided checks were insufficient.**

The County's Internal Controls and Cash Manual (ICCM) Chapter 9 - Bank Accounts requires that when checks are voided, the word "VOID" should be written on the face of the check and the signature line torn off from the check. We tested a sample of twelve voided checks to verify that they were properly voided.

The following conditions were noted:

- Two (17%) checks could not be located.
- Three (25%) did not have the word "VOID" written or stamped on the face of the check.

The Department is not familiar with ICCM procedures on how to properly void checks. When a check is not stamped void and bank reconciliation is not being performed, the risk increases that the check may be inappropriately cashed.

Recommendation:
We recommend checks are voided in accordance with the ICCM procedures. Employees should stamp void on the checks, and enter the void item into QuickBooks immediately. The supervisor overseeing the trust funds should review the void records periodically to ensure required procedures are being followed.

Management's Response:
We were unaware of the ICCM procedure calling for signature lines to be ripped off of checks. In regard to the checks not found, check#2954 was a stale dated check, and therefore not in our possession. All checks stale date and are voided after 6 months, per county policy. The 2nd check noted (#6654) is one that we have no evidence ever existed. Blank checks are created via Versa Check software, and used as needed to write checks via Quickbooks accounting software. The check in question was never written, voided or used. The Versa Check software stores the next check in the sequence to be printed. However, if a reprint is required, then a manual input

of the next check number in the sequence is required. The system does not prompt if a number is skipped. Fiscal staff have been reminded to stamp or write Void across every check immediately. Fiscal Supervisors will review void transactions to ensure that suitable procedures continue to be followed.

Auditor's Response:
The Department's actions and planned actions will correct the deficiency noted in the finding.

Thank you very much for the cooperation extended by your staff during the course of this audit.

Respectfully submitted,

Larry Walker
Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By: [redacted]
Denise Mejico
Chief Deputy Auditor

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