



O R A N G E C O U N T Y

AUDITOR-CONTROLLER

I N T E R N A L A U D I T

**COUNTYWIDE AUDIT OF
FIDUCIARY FUNDS:
PROBATION DEPARTMENT**

**For the Period
July 1, 2014 through
June 30, 2015**



**Audit Number 1519
Report Date: May 4, 2016**



O R A N G E C O U N T Y
AUDITOR-CONTROLLER
I N T E R N A L A U D I T

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Orange County Auditor-Controller

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ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Transmittal Letter

May 4, 2016

Audit No. 1519

TO: Steve Sentman, Chief Probation Officer
Probation Department

SUBJECT: Countywide Audit of Fiduciary Funds:
Probation Department

We have completed our audit of internal controls over fiduciary funds in the Probation Department for the period July 1, 2014 through June 30, 2015. Our final report is attached for your review.

I submit an **Audit Status Report** quarterly to the Audit Oversight Committee (AOC) and a monthly report to the Board of Supervisors (BOS) where I detail any critical 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 AOC and BOS.

Additionally, we will request your department to complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division

Attachments

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Eric H. Woolery, Auditor-Controller
- Frank Kim, County Executive Officer
- Mark Denny, Chief Operating Officer
- Lilly Simmering, Deputy Chief Operating Officer
- Bryan Prieto, Chief Deputy Probation Officer, Operation Support, Probation Department
- Dana Schultz, Director, Administration and Fiscal Division, Probation Department
- Armond Nazaar, Accounting Manager, Administration and Fiscal Division, Probation Department
- Jon Humann, Budget Manager, Administration and Fiscal Division, Probation Department
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Macias Gini & O'Connell LLP, County External Auditor



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Probation Department
Audit No. 1519*

For the Period July 1, 2014 through June 30, 2015

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Internal Auditor's Report

Audit No. 1519

May 4, 2016

TO: Steve Sentman, Chief Probation Officer
Probation Department

FROM: Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division

SUBJECT: Countywide Audit of Fiduciary Funds:
Probation Department

OBJECTIVES

As part of a Countywide Audit of Fiduciary Funds, we have completed our audit of internal controls over fiduciary funds in the Probation Department for the period July 1, 2014 through June 30, 2015. We conducted this audit to ensure fiduciary funds are properly administered and maintained in compliance with County policy, procedures, and fund requirements. Our audit objectives were to:

1. Evaluate internal controls to ensure fiduciary fund transactions are accurate, valid, adequately supported, processed timely, properly recorded, and that fund receipts and disbursements are made in accordance with the established fund purpose and uses.
2. Evaluate internal controls to ensure fiduciary fund reconciliations are accurate, complete, and timely in compliance with County policy and departmental policy.
3. Evaluate for proper segregation of duties and management reviews and approvals related to the administration of fiduciary funds.
4. Determine if administration of fiduciary funds is effective and efficient (e.g., no backlogs, duplication of work, benefit in automating manual process).

RESULTS

Objective #1: Our audit found that internal controls are in place to ensure fiduciary fund transactions are accurate, valid, adequately supported, processed timely, properly recorded, and transactions were made in accordance with the established fund purpose and uses, with one exception. Our audit found there were no written policies and procedures for administering and reconciling Funds 346 and 2AE. We identified **one (1) Control Finding** to establish policies and procedures for Funds 346 and 2AE.

Objective #2: Our audit found that internal controls are in place over fund reconciliations to ensure the reconciliations are accurate, complete, timely, and in compliance with County policy and department policy, with the following exceptions: 1) Subsidiary ledgers are not established and reconciliations are not performed for Funds 346 and 2AE; 2) Fund 347 has 234 fiduciary sub-accounts (DBSAs), several with no balances and activity; and 3) Monies held in Fund 347-9200-9999 (suspense account) had a fund balance of \$404,399 requiring research and resolution. We identified **one (1) Significant Control Weakness** to establish subsidiary ledgers and perform reconciliations and **two (2) Control Findings** to evaluate whether it is necessary to keep unused DBSAs open and continue efforts to research and resolve the outstanding reconciling items in Fund 347.

Objective #3: Our audit found that internal controls are in place regarding segregation of duties and management reviews and approvals of fiduciary fund transactions and fund reconciliations. We have **no audit findings under this objective.**



Internal Auditor's Report

Objective #4: Our audit did not disclose any instances concerning duplication of work or backlogs; however, we did find that documentation for establishing fiduciary funds, known as the Chart of Accounts (COFAs), for Fund 346 was based on a memo with limited information and Fund 347 did not have any documentation. We identified **one (1) Control Finding** to work with the Auditor-Controller to update the COFAs into the current format with the required elements.

BACKGROUND

We conducted a Countywide Audit of Fiduciary Funds to ensure funds are properly administered and maintained in compliance with County policy, procedures, and fund requirements. This report is on our audit of selected fiduciary funds administered by the Probation Department. We are issuing separate reports for our audits of fiduciary funds in the County Executive Office, Child Support Services, Clerk-Recorder, District Attorney/Public Administrator, Health Care Agency/Public Guardian, OC Community Resources, OC Public Works, Sheriff-Coroner, and Treasurer-Tax Collector.

Fiduciary funds are used to account for assets held by the County in a trustee or agency capacity on behalf of outside parties, including employees, individuals, private organizations, or other governments. These funds cannot be used to support the County's programs. Fiduciary funds are to be used and accounted for in accordance with applicable legal requirements; federal, state, and other governmental regulations; trust agreements, trust indentures, or other fiduciary agreements; and generally accepted accounting principles.

County Accounting Manual (CAM) Procedures F3 – *Requesting Establishment/Deletion of Funds/Agency* and F4 – *Fiduciary Funds* provide the policy, procedures and internal control requirements for establishing and maintaining fiduciary funds. Fiduciary funds are classified as either: 1) Private-Purpose Trust Funds; 2) Pension and Other Employee Benefits Trust Funds; and 3) Agency Funds. For this audit, we are including only select Private-Purpose Trust Funds and Agency Funds as described below:

Public Administration Trust Funds (Fund Class U1) – This type of private-purpose trust fund is used to account for trust arrangements where the principal and income benefit individuals, private organizations, or other governments. Examples include unidentified funds, unclaimed prisoner funds, and decedents' property held for escheatment.

Agency Funds (Fund Class A5) – This type of agency fund is used by certain County departments to hold various types of cash receipts and deposits in a fiduciary capacity. Disbursements are made from these funds by checks issued by the Auditor-Controller upon requisition of the responsible department.

As of June 30, 2015, the Probation Department had the following fiduciary funds:

Fund	Fund Class	Name/Date Established	Purpose	FY 2014-15 Receipts/ Disbursements	Fund Balance at 6/30/15
346	A5	Confiscated Property (Probation) Established: Dec. 1997	This fund is established to handle the distribution of cash and funds received from the sale of seized property	Receipts: \$187 Disbursements: \$0	\$7,213
347	A5	Probation Established: Various dates	Multiple uses involving Probation's operations. Comprised of about 234 DBSA sub-accounts	Receipts: \$11,328,190 Disbursements: \$10,267,846	\$2,684,140
2AE	A5	Recidivism Reduction Grant Fund Established: Feb. 2015	Account established to manage funding for Recidivism Reduction Grant State Pass Through funding	Receipts: \$500,000 Disbursements: \$0	\$500,000



Internal Auditor's Report

Note: Included in Fund 347 are about 234 Department Balance Sheet Accounts (DBSAs), several of which have no balances or activity. Fund 2AE was established in February 2015 and has had no activity except for funding provided by the state. In addition, at the time of our fieldwork, Auditor-Controller Internal Audit was conducting the *Biennial Audit of Probation Internal Controls over Juvenile Records and Accounts* (Audit No. 1567), which included testing of Probation's controls and processes over fund disbursements and reconciliations involving juvenile accounts.

For this audit, we excluded Funds 346 and 2AE for detailed transaction testing because there were no disbursements and no fund reconciliations during the audit period. We performed detailed testing of a sample of disbursements in Fund 347. We evaluated the work performed in the *Biennial Audit of Probation Internal Controls over Juvenile Records and Accounts* and decided to rely on the testing of Fund 347 disbursements and reconciliations performed in that audit. Because we only performed testing on select fiduciary funds in the Probation Department, **it is important that the Probation Department determine if the findings and recommendations contained in this report are applicable to other fiduciary funds under its administration.**

SCOPE AND METHODOLOGY

Our audit of internal controls over fiduciary funds administered by the Probation Department was performed to ensure fiduciary funds are properly administered, safeguarded, and maintained in compliance with County policy, procedures, and specific fund requirements for the period from July 1, 2014 through June 30, 2015. Our audit included inquiry, auditor observation, and limited testing for assessing the adequacy of internal controls and compliance with established County and departmental procedures. We limited our scope for our Countywide Audit of Fiduciary Funds to select Public Administration Trust Funds (Fund Class U1) and Agency Funds (Fund Class A5).

Scope Exclusions. We did not include the following funds in our Countywide Audit of Fiduciary Funds. These will be considered for future audits based on our risk assessment and audit planning process:

- Fund Class: A2 – Unapportioned Tax and Interest Funds
- Pension Trust & Other Employee Benefits (Fund Class P1, P2, P3, P4, P5, P6)
- Fund Class U2 – OCDA Redevelopment private purpose trust fund

FOLLOW-UP PROCESS

Please note we have a 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). Our **First Follow-Up Audit** will begin at six months from 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 six months from the release of the first Follow-Up Audit report, by which time **all** audit recommendations are expected to be addressed and implemented. We bring to the AOC's attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. Such open issues appear on the AOC agenda at its next scheduled meeting for discussion.

We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendations are implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed form to facilitate our review.



Internal Auditor's Report

MANAGEMENT'S RESPONSIBILITIES FOR INTERNAL CONTROLS

In accordance with the Auditor-Controller's County Accounting Manual Section S-2 Internal Control Systems: "All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is because management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls." Control systems shall be continuously evaluated by Management and weaknesses, when detected, must be promptly corrected. The criteria for evaluating an entity's internal control structure is the Committee of Sponsoring Organizations (COSO) control framework. Our Internal Control Audit enhances and complements, but does not substitute for the Probation Department's continuing emphasis on control activities and self-assessment of control risks.

Inherent Limitations in Any System of Internal Control

Because of inherent limitations in any system of internal controls, errors, or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. 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 the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in the Probation Department's operating procedures, accounting practices, and compliance with County policy.

The Auditor-Controller Internal Audit Division is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations.

ACKNOWLEDGEMENT

We appreciate the courtesy extended to us by the personnel of the Probation Department during our audit. If you have any questions regarding our audit, please contact me directly at (714) 834-5442, or Scott Suzuki, Assistant Director at (714) 834-5509.



Detailed Findings, Recommendations, and Management Responses

Finding No. 1 – No Policies and Procedures for Funds 346 and 2AE (Control Finding)

Criteria

Policies and procedures over the administration of fiduciary funds should be established and maintained by departments/agencies, in addition to the County Accounting Manual (CAM) procedures, to reflect current processes and ensure consistency in work by current and new staff members. Policies and procedures should address the fund purpose, processing receipts and disbursements, and reconciling the fund.

Details

Fund 346 – *Confiscated Property* is used for the distribution of cash and funds received from the sale of seized property. Our audit found there has been no activity during the audit period except for a \$187 cash distribution for bankruptcy repayment. According to Probation, the balance of \$7,213 at June 30, 2015, consists of non-federal asset forfeiture funds. Probation plans to research the funds and determine the appropriate disposition. Probation did not have written policies and procedures for administering and reconciling this fund.

Fund 2AE – *Recidivism Reduction Grant Fund* is a new fund established in February 2015 for managing the state pass through grant amounting to \$500,000. Probation informed us that funds have not yet been disbursed as of June 30, 2015, and that a Request for Proposal is currently in process for transitional housing vendors. Probation indicated once the vendors are selected and the program is implemented, funds will be drawn down for expenditures. Probation did not have written policies and procedures for administering and reconciling this fund.

Although Funds 346 and 2AE had no or limited activity, it is important to establish policies and procedures to ensure funds are processed, monitored, and safeguarded when there is fund activity.

Recommendation No. 1:

Probation Department establish written policies and procedures that describe the administration and reconciliation requirements for Funds 346 and 2AE.

Probation Department Management Response:

Concur. The Probation Department concurs with the recommendation. The Probation Department will work with CEO and the Auditor-Controller to establish written policies and procedures for the administration and reconciliation of Funds 346 and 2AE consistent with County policies and procedures for similar County funds. These policies and procedures will be completed by June 30, 2016.

Finding No. 2 – No Subsidiary Ledgers or Reconciliations for Funds 346 and 2AE (Significant Control Weakness)

Criteria

County Accounting Manual (CAM) Procedure F-4, Section 2.6.5 *Reconciliation of Fiduciary Funds*, states that departments and agencies are responsible for reconciling, at least monthly, each fiduciary fund balance per the department's or agency's subsidiary ledger records or other detailed records to the Auditor-Controller's General Ledger balance shown for the fiduciary fund.

Details

Fund 346 – *Confiscated Property* had no activity during the audit period except for a \$187 cash distribution for bankruptcy repayment. According to Probation, the balance of \$7,213 at June 30, 2015, consists of non-federal asset forfeiture funds. Fund 2AE – *Recidivism Reduction Grant Fund* is a new fund established in February 2015 and funds have not been disbursed as of June 30, 2015.



Detailed Findings, Recommendations, and Management Responses

Our audit found that Probation has not established subsidiary records for Funds 346 and 2AE, and monthly reconciliations are not performed. Although Funds 346 and 2AE had no or limited activity, it is important to establish these controls to ensure funds are monitored and safeguarded when there is fund activity.

Recommendation No. 2:

Probation Department take measures to establish subsidiary records and reconcile Funds 346 and 2AE.

Probation Department Management Response:

Concur. The Probation Department concurs with the recommendation. The Probation Department will establish subsidiary ledgers for Funds 346 and 2AE. We will also perform monthly reconciliations of Funds 346 and 2AE. The subsidiary ledgers and fund reconciliation will be completed by June 30, 2016.

Finding No. 3 – Fiduciary Sub-Accounts with No Activity Should Be Evaluated (Control Finding)

Criteria

CAM F-4, *Fiduciary Funds*, Section 2.7.2 states that a fiduciary fund which is no longer required by a department or agency should be closed in accordance with County of Orange Accounting Manual Procedure F-3, Requesting Establishment/Deletion of Funds/Agencies.

Details

Fund 347 - *Probation* has multiple uses involving Probation's operations and is comprised of about 234 Department Balance Sheet Accounts (DBSAs) which are fiduciary fund sub-accounts. Our audit found approximately 100 DBSAs (43%) that have no balances in the General Ledger and appear not to be in use. While certain DBSAs may need to remain open, the large number of unused accounts could be cumbersome and lead to errors and/or irregularities if not continually monitored. Probation should evaluate the need to keep the DBSAs open or to close them if no longer needed for current operations.

Recommendation No. 3:

Probation Department determine if inactive DBSAs in Fund 347 should be closed-out if no longer needed for Probation operations.

Probation Department Management Response:

Concur. The Probation Department concurs with the recommendation. The Probation Department has reviewed the DBSAs and will be closing out 27 found to be inactive or no longer needed for current operations. The Probation Department is also looking into merging some DBSAs with other active DBSAs which may result in closing additional DBSAs. The closure of identified DBSAs will be completed by June 30, 2016.

Finding No. 4 – Fund 347 Reconciling Differences Need to Be Resolved (Control Finding)

Criteria

CAM F-4, *Fiduciary Funds*, Section 2.6.5 states that reconciliations must identify the differences between the department's or agency's detailed or subsidiary records and the General Ledger balance of the fund, the reasons for those differences, and the planned disposition of any reconciling items.

Details

Fund 347-9200-9999 - *Hold Trust Fund - Suspense* contains monies received by Probation but require further research by Collection Officers to research and apply the funds to the appropriate accounts. During our audit period, there were \$528,115 in receipts, \$547,946 in disbursements, and a fund balance of \$404,349 as of June 30, 2015. In the fund balance, there are items requiring further research.



Detailed Findings, Recommendations, and Management Responses

Fund 347-9200-0999 - *Unreconciled Control Accounts* was established to hold monies related to accounts receivables in the Probation financial system (Mapper) that was used during the 1990s. Probation indicated this fund has excess funds from control accounts in the Mapper system that were transferred to this DBSA and which Probation needs to continue to research this balance. The outstanding balance as of June 30, 2015 was \$27,071 and reflects an overage in the County's General Ledger as compared to Probation's subsidiary ledgers. There were no receipts and disbursements in this DBSA during the audit period.

We also found that in CAPS+, this fund is called *Interest Earned on Trust Fund Deposits*, which is different from Probation's fund title - *Unreconciled Control Accounts*. In its efforts to reconcile the outstanding balance, Probation should also evaluate the fund name so that it reflects the actual function and use of the fund activity.

Recommendation No. 4:

Probation Department work towards resolving the long-outstanding reconciling differences in Fund 347. Probation should also evaluate the fund usage and name of the DBSA currently referred to as *Unreconciled Control Accounts*.

Probation Department Management Response:

Concur. The Probation Department concurs with the recommendation. The Probation Department will continue to apply resources to reconciling monies requiring further research in Fund 347-9200-9999 - Hold Trust Fund – Suspense. The Probation Department will work to resolve the funds in this account in accordance with County Accounting Procedures Manual (CAM) F-4. The Probation Department has changed the name of this DBSA to *Unreconciled Control Accounts* in CAPS+ to reflect Probation's fund title.

Finding No. 5 – Fiduciary Fund Documents Lacking Required Elements (Control Finding)

Criteria

CAM F-3 - Requesting *Establishment/Deletion of Funds/Agencies*, Section 2.3 states:

“The AIT or request letter must contain the following information: (A) The legal authority for establishing the new fund or agency; (B) If no legal authority, the policy/administrative reason or other authority for establishing the fund or agency; (C) Whether or not the fund or agency is a budgeted fund or agency, and if available, the Activity Code to be used for this budget; (D) A description of the revenue sources for the fund or agency, and the uses of the fund or agency; (E) Any expiration date for the fund or agency; (F) Whether the fund will earn its own interest, or if it does not, which other fund should receive the interest earned on balances in the new fund (this does not apply to new agencies); (G) If the fund will not earn its own interest, the reason for the redirection of interest: legal or contractual provision, or management decision; (H) The specific account codings and dollar amounts or appropriations and estimated revenues to be established for the fund or agency, if the fund or agency is being established pursuant to 2.2.3 above; (I) The responsible controlling department for the new fund or new agency; and (J) For funds with separate cash accounts, the planned disposition of any residual account balances when the fund is closed. Include legal or other authority for the distribution.”

Details

COFAs are documents used to establish or modify various funds in the County. The Probation Department provided a memo from December 1987 that was used for the establishment of Fund 346 and had no documentation for Fund 347.



Detailed Findings, Recommendations, and Management Responses

Because these funds were established prior to the existing policy, certain elements as required by the current policy and COFA format are missing for these funds, such as citing legal or other authority for fund distributions, expiration dates, if interest bearing, and the planned disposition of any account residual balances when the fund is closed.

Auditor-Controller General Accounting is responsible for establishing and maintaining COFA documents. They are aware of the fact that some of the fund establishment documents are old and lack the required elements. Currently, if a department/agency requests a revision to a COFA that is not in the current format, the Auditor-Controller will require them to use the current COFA format that includes all required elements. We were informed by Auditor-Controller General Accounting that it is a goal to eventually have all COFAs in the current format. Probation should work with the Auditor-Controller in determining which COFAs can be updated. Our audit did not note any other issues arising from the old COFAs.

The absence of complete written fiduciary fund documentation increases the risk of misunderstandings and miscommunication regarding rights, responsibilities, and authorized uses for the department or agency holding the fiduciary funds in a trustee capacity.

Recommendation No. 5:

Probation Department work with the Auditor-Controller to prepare COFAs for Funds 346 and 347 that are supported with the required elements.

Probation Department Management Response:

Concur. The Probation Department concurs with the recommendation. The Probation Department will work with the Auditor-Controller to prepare COFAs for Funds 346 and 347 that are supported with the required elements. The COFAs will be completed and submitted to the Auditor-Controller by June 30, 2016.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT A: Report Item Classifications

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

▶ **Critical Control Weaknesses:**

These are Audit Findings or a combination of Auditing Findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the Department's or County's reputation for integrity. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

▶ **Significant Control Weaknesses:**

These are Audit Findings or a combination of Audit Findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.

▶ **Control Findings:**

These are Audit Findings concerning internal controls, compliance issues, or efficiency/effectiveness issues 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.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: Probation Department Management Responses



STEVEN J. SENTMAN
CHIEF PROBATION OFFICER

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April 29, 2016

Toni Smart, CPA, Director
Auditor-Controller Internal Audit
County of Orange
12 Civic Center Plaza
Room 200
Santa Ana, CA 92702

Attention: Scott Suzuki, Assistant Director

Please see below for our response to the findings identified during your audit of the internal controls over fiduciary funds in the County of Orange Probation Department for the period July 1, 2014 through June 30, 2015.

Evaluate Internal Controls for Fiduciary Fund Transactions

Finding No. 1 – No Policies and Procedures for Funds 346 and 2AE (Control Finding)

Probation did not have written policies and procedures for administering and reconciling Funds 346 and 2AE.

Probation Management Response:

The Probation Department concurs with the recommendation. The Probation Department will work with CEO and the Auditor-Controller to establish written policies and procedures for the administration and reconciliation of Funds 346 and 2AE consistent with County policies and procedures for similar County funds. These policies and procedures will be completed by June 30, 2016.

Evaluate Internal Controls for Fiduciary Fund Reconciliations

Finding No. 2 – No Subsidiary Ledgers or Reconciliations for Funds 346 and 2AE (Significant Control Weakness)

Probation has not established subsidiary ledgers for Funds 346 and 2AE, and monthly reconciliations are not performed.

Probation Management Response:

The Probation Department concurs with the recommendation. The Probation Department will establish subsidiary ledgers for Funds 346 and 2AE. We will also perform monthly reconciliations of Funds 346 and 2AE. The subsidiary ledgers and fund reconciliation will be completed by June 30, 2016.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: Probation Department Management Responses (continued)

Finding No. 3 – Fiduciary Sub-Accounts with No Activity Should Be Evaluated (Control Finding)

Our audit found approximately 100 Department Balance Sheet Accounts (DBSAs) (43%) that have no balances in the General Ledger, and appear not to be in use. While certain DBSAs may need to remain open, the large number of unused accounts could be cumbersome and lead to errors and/or irregularities if not continually monitored.

Probation Management Response:

The Probation Department concurs with the recommendation. The Probation Department has reviewed the DBSAs and will be closing out 27 found to be inactive or no longer needed for current operations. The Probation Department is also looking into merging some DBSAs with other active DBSAs which may result in closing additional DBSAs. The closure of identified DBSAs will be completed by June 30, 2016.

Finding No. 4 – Fund 347 Reconciling Differences Need to be Resolved (Control Finding)

Fund 347-9200-9999 – *Hold Trust Fund - Suspense* contains monies received by Probation but require further research by Collection Officers to research and apply the funds to the appropriate accounts. The outstanding balance as of June 30, 2015 was \$404,349.

Fund 347-9200-0999 – *Unreconciled Control Accounts*; The outstanding balance as of June 30, 2015 was \$27,071 and reflects an overage in the County's General Ledger as compared to Probation's subsidiary ledgers.

Fund 347-9200-0999 – *Unreconciled Control Accounts*; This fund is called *Interest Earned on Trust Fund Deposits*, which is different from Probation's fund title – *Unreconciled Control Accounts*.

Probation Management Response:

The Probation Department concurs with the recommendation.

The Probation Department will continue to apply resources to reconciling monies requiring further research in Fund 347-9200-9999 - Hold Trust Fund – Suspense.

The Probation Department will work to resolve the funds in this account in accordance with County Accounting Procedures Manual (CAM) F-4.

The Probation Department has changed the name of this DBSA to *Unreconciled Control Accounts* in CAPS+ to reflect Probation's fund title.

Determine if Administration of Fiduciary Funds is Effective and Efficient

Finding No. 5 – Fiduciary Fund Documents Lacking Required Elements (Control Finding)

The Probation Department provided a memo from December 1987 that was used for the establishment of Fund 346, and had no documentation for Fund 347. Because these funds were established prior to the existing policy, certain elements as required by the current policy and COFA format are missing for these funds, such as citing legal or other authority for fund distributions, expiration dates, if interest bearing, and the planned disposition of any account residual balances when the fund is closed. The absence of complete written fiduciary documentation increases the risk of misunderstandings and miscommunication regarding rights, responsibilities and authorized uses for the department or agency holding the fiduciary funds in a trustee capacity.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: Probation Department Management Responses (continued)

Probation Management Response:

The Probation Department concurs with the recommendation. The Probation Department will work with the Auditor-Controller to prepare COFAs for Funds 346 and 347 that are supported with the required elements. The COFAs will be completed and submitted to the Auditor-Controller by June 30, 2016.

If there are any questions, concerns or additional follow-up needed to our response, please contact Dana Schultz, Administrative and Fiscal Division Director, at (714) 645-7005.



Steven J. Sentman, Chief Probation Officer

4/29/16

Dated



Dana Schultz, Director
Administrative and Fiscal Division, Probation

4/29/16

Dated