

County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section

Probation Department: Juvenile Trust Funds Biennial Audit



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January 29, 2015

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SUBJECT: BIENNIAL JUVENILE TRUST FUNDS AUDIT

In compliance with Article V, Section 6, of the San Bernardino County Charter and County Policy 05-20 entitled Internal Operational Auditing and Welfare and Institutions Code 275, we have completed an audit of the Probation Department for the period of July 2012 through June 2014. The objectives of the audit were to determine if internal controls were in place and effective over the juvenile trust funds of the Probation Department and to determine whether the Department complied with Welfare and Institutions Code Section 873. We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

We identified several procedures and practices that could be improved. We have listed these areas for improvement in the Audit Findings and Recommendations section of this report.

We sent a draft report to the Department on December 23, 2014 and discussed our observations with management on January 22, 2015. The Department's responses to our recommendations are included in this report.

We would like to express our appreciation to the personnel at the Probation Department who assisted and cooperated with us during this engagement.

Respectfully submitted,

Larry Walker

Auditor-Controller/Treasurer/Tax Collector
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By:



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Enclosure

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Probation Department: Juvenile Trust Funds Audit

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Summary of Audit Results

We concluded that the Probation Department had areas where their internal controls over juvenile trust funds could be improved and that the Department was in compliance with Welfare and Institutions Code Section 873.

Our findings and recommendations are provided to assist management in improving internal controls and procedures relating to the Department's juvenile trust funds.

The table below summarizes the audit findings and recommendations for this audit engagement. For further discussion, refer to the *Audit Findings and Recommendations* section of this report.

Finding No.	Findings and Recommendations	Page No.
1	Finding: Deposit procedures could be improved.	7
	Recommendation: We recommend the Department ensure that cash deposits are performed weekly if amounts less than \$1,000 are collected.	
2	Finding: Departmental procedures for trust fund disbursements were not followed.	8
	Recommendation: We recommend that supervisory personnel provide training to staff to familiarize them with the departmental policies and procedures.	
3	Finding: Bank statements were not reconciled to the check register balance.	10
	Recommendation: We recommend that the Department reconcile their records to the bank statement each month. The Department should research any identified variances between the adjusted bank and check register balances. Reviews of the reconciliations should be performed by someone other than the preparer.	



Finding No.	Findings and Recommendations	Page No.
4	Finding: Departmental procedures for Trust Fund Quarterly Reports were not followed.	11
	Recommendation: Management should review the reports and return the proof of review to Fiscal Services within 14 days.	
5	Finding: Internal controls over voided checks could be improved.	12
	Recommendation: Checks should be voided in accordance with the Internal Controls and Cash Manual procedures.	

- **Finding 1: Deposit procedures could be improved.**

We reviewed 77 randomly selected deposits for timeliness and supervisory review. Fifty-five of the sample selection had deposits that were not made in a timely manner. In one instance, a class was held on February 11, 2014 and the monies were not submitted to Fiscal until June 10, 2014, a total of 119 days later. Three deposits did not have a site receipt; therefore there was no indication of when monies were received. Seventy-five of the sample selection had no supervisory review of the deposit slip.

- **Finding 2: Departmental procedures for trust fund disbursements were not followed.**

We reviewed 42 disbursements and found that two requests did not have all the reimbursement receipts attached or the correct supporting documentation. Twenty-one of the transactions did not have both the Requesting Party and the Supervisor's signatures on each receipt. One transaction had purchases commingled with personal purchases on a receipt. Seven of the transactions had receipt dates that did not reflect the event date or service month.

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

A review of twelve reconciliations revealed that during FY 12-13, two had adjusted bank balances that were not reconciled to the check register balance. Additionally, during FY12-13, six out of twelve reconciliations had no evidence of review by someone other than the employee performing the reconciliation.



- **Finding 4: Departmental procedures for Trust Fund Quarterly Reports were not followed.**

A review of seven quarterly reports issued for Fiscal Years 2013 and 2014 revealed that face sheets were not being returned to Fiscal Services by every Division Director. It was also unclear if the face sheets were returned within 14 calendar days due to lack of dates accompanied with the signatures or Department receipt date stamps.

- **Finding 5: Internal controls over voided checks could be improved.**

All ten checks tested did not have the signature lines torn off from the voided checks.



JUVENILE TRUST FUNDS AUDIT

The Department

The San Bernardino County Probation Department (Department) provides temporary detention for minors generally between ages 12 and 18, who are detained pending Juvenile Court hearings or who remain in custody by order of the Juvenile Court. The Department's mission is to provide a safe, secure and healthy environment which ensures the dignity and fulfills the needs of legally detained minors.

The Juvenile Detention and Assessment Centers

The Department operates three Juvenile Detention and Assessment Centers (JDAC). Boys and girls are assigned to living units which are designed to house 20 minors each and are housed by age and gender. The living units have sleeping rooms, restrooms, showers, and a day room for a variety of leisure and structured activities. Each living unit is supervised 24 hours a day by Probation Corrections Officers who maintain order and provide individual and group counseling.

- **Central Valley JDAC**
Located in the city of San Bernardino, this is the oldest of the three facilities. The original Correction Standards Authority capacity was 168 beds, but the County Board of Supervisors approved the construction of a new facility, breaking ground in Spring 2009. The new capacity is now 280 beds.
- **High Desert JDAC**
The center is located in Apple Valley and was built in 2004. It has a Corrections Standards Authority capacity of 200 beds.
- **West Valley JDAC**
This center is located in Rancho Cucamonga and was completed in 2002. It has a Corrections Standards Authority capacity of 182 beds.

The Trust Funds

The Department has six individual operational checking accounts with Bank of America from which funds are requested and disbursed for activities, supplies and equipment that directly benefit the youth population in department programs.



These funds are not part of the General Operating Expenses provided for in the County Budget. Trust funds are generated from gifts, donations, fees for programs, proceeds from fund raising projects and sales or awards for youth vocational training programs.

- Juvenile Hall Trust Fund
- Treatment Division Trust Fund
- Project Focus Trust Fund
- Sustaining Trust Fund
- Youth Justice Center Trust Fund
- Youth Accountability Trust Fund



Scope and Objectives

Our audit examined the Department's juvenile trust funds for the period of July 2012 through June 2014.

The objectives of our audit were to:

- Determine if the internal controls over the Probation Department's juvenile trust funds were properly designed and effective.
- Determine whether the Department complied with Welfare and Institutions Code (WIC) Section 873, which requires that:
 - Any profit made from the juvenile hall store is deposited into the juvenile trust fund.
 - 10% of the gross sales of confined minor hobbycraft are deposited into the juvenile trust fund.
 - Any money received from a telephone provider for the juveniles is deposited into the juvenile trust fund.
 - Any excess money within the juvenile trust fund is invested and the interest accrued is deposited into the juvenile trust fund.
 - Juvenile trust fund money is disbursed in accordance with Welfare and Institutions Code 873 (e) and (h).

Methodology

In achieving the audit objectives, the following audit procedures were performed, including but not limited to:

- Interview of Probation Department personnel.
- Review of the Department's policies and procedures.
- Examination of original source documents and system generated reports.



Finding 1: Deposit procedures could be improved.

The County's Internal Controls and Cash Manual (ICCM) Chapter 9 states that the deposit of all monies collected must be made by the next business day when the dollar amount reaches \$1,000 (including cash, checks and money orders), or at least weekly if lesser amounts are collected. It also states that supervisors must verify that deposits are intact.

The following conditions were identified when we reviewed 77 transactions:

- Fifty-five of the sample selection had deposits that were not made in a timely manner.
 - Forty-three deposits were monies that were received from outlying sites and then submitted to Fiscal Services. In one instance, a class was held on February 11, 2014 and the monies, totaling \$300, were not submitted to Fiscal until June 10, 2014, a total of 119 days later.
 - The remaining twelve were deposits received directly at the Fiscal site.
- Twenty out of the seventy-seven transactions were Coinless Phone Revenue transactions. Out of the twenty phone transactions, eleven checks were not deposited within a timely manner. On one occasion, a check was held for 43 days before being deposited.
- Three deposits did not have a site receipt; therefore there was no indication of when monies were received.
- Seventy-five of the sample selection had no supervisory review of the deposit slip.

Monies from class fees collected by outlying sites were not being submitted to Fiscal Services in a timely manner. When the Accounting Technician prepared the deposits, there was no supervisory review of the deposit to verify it was intact. Maintaining cash at outlying sites longer than necessary significantly increases the risk of loss, theft or embezzlement. In addition, the risk of undetected errors increases when there is no supervisory review of deposits.

Recommendation:

We recommend that the Department ensure that cash deposits are performed weekly if amounts less than \$1,000 are collected, as stated in the ICCM guidelines. Receipts should be delivered to the Fiscal Services Administration at least weekly by outlying sites if their amounts are less than \$1,000. In addition, documented reviews over the deposits should be conducted by someone of a supervisory level to ensure accuracy.



Management's Response:

Fiscal Services Administrative staff now ensures that deposits of \$1000 or more are made on the day received, and any other amounts at least weekly. Coinless Phone checks are now sent directly to Administrative Services rather than being routed through Juvenile Hall Fiscal Staff first. Fiscal supervisors review and initial deposit slips.

Auditor's Response:

The Department's actions will correct the deficiencies noted in this finding.

Finding 2: Departmental procedures for trust fund disbursements were not followed.

The Probation Department Trust Fund Procedures state that the Requesting Party shall purchase necessary goods and provide detailed and dated receipts for purchases. Receipts should contain a store name and date, but when it is not available, the procedures state that the store write their name or use an address stamp and add transaction date. In addition, itemized receipts shall be submitted to Fiscal within fourteen business days from purchase, and the Requesting Party and their Supervisor shall sign and print their names on all receipts. Prior written approval should be obtained from a Division Director or above employee and purchases shall not be commingled with personal purchases. Items for date specific events must be purchased prior to or on the date of the event. In addition, the Receipt of Funds Acknowledgement Form that is signed by each employee prior to receiving the disbursement states that funds from different activities should not be combined. For example, if an employee is issued two checks, any unused funds from the first check must be returned to Fiscal and may not be used for the activity funded by the second check.

The following conditions were noted when we reviewed 42 statistically selected disbursements:

- Two requests did not have all the reimbursement receipts attached or the correct supporting documentation.
 - A \$70 lunch request was combined with another request for a unit store re-stock. The re-stock was approved for \$75, but the re-stock receipts totaled to \$117.55. The difference in amount of \$42.55 was instead taken from the approved lunch request of \$70.
 - One receipt did not contain a store name.
- Receipts were not date-stamped when received to indicate if receipts were submitted within 14 calendar days. The green Staff Request Form was



date-stamped to indicate when Fiscal received the form for processing; however receipts were not date-stamped when received.

- Out of forty-two transactions tested, thirty-nine were requests for advances of trust funds and three were requests for reimbursements.
- Out of the thirty-nine "Advance" requests, thirty-three could not be tested if receipts were submitted within 14 days because there was no date stamp to indicate when receipts were received. Four out of thirty-nine "Advance" requests had receipts that were submitted over the 14 day timeframe. One advance request was dated, but the date stamp was illegible.
- Twenty-one out of forty-two transactions did not have both the Requesting Party and the Supervisor's signatures on each receipt.
- One out of forty-two transactions did not have a Director's signature on the Staff Request Form.
- One out of forty-two transactions had purchases commingled with personal purchases on a receipt.
- Seven out of forty-two transactions had receipt dates that did not reflect the event date or service month.

Employees are not familiar with their Department's written procedures, leading to an increase in risk for the potential misuse of trust fund monies.

Recommendation:

We recommend that reimbursement requests have all the correct supporting documentation attached. The supporting documentation should also be date-stamped upon receipt at Fiscal Services. In addition, trust funds purchases should not be commingled with personal purchases on receipts. We also recommend supervisory personnel provide training to staff to familiarize them with the Departmental policies and procedures. We further recommend that supervisory personnel should monitor and approve the disbursement process to ensure staff is complying with the procedures.

Management's Response:

Current procedures are under review and, once finalized, will be disseminated and explained to staff. All staff is mandated to read and acknowledge procedures in our Policy Manager system. Documentation including receipts will be dated or date stamped to reflect received date.



Auditor's Response:

The Department's planned actions will correct the deficiencies noted in this finding.

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

The Internal Controls and Cash Manual (ICCM) Chapter 9 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 checks. If the employee has the authority to sign or deposit checks, he may complete the reconciliation if it is reviewed and signed by an employee of a higher ranking job code.

A review of twelve reconciliations revealed the following conditions:

- During FY 12-13, two out of twelve reconciliations had adjusted bank balances not reconciled to the check register balance.
- During FY 12-13, six out of twelve reconciliations had no evidence of review by someone other than the employee performing the reconciliation.

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 that the Department reconcile their records to the bank statements each month. In addition, the Department should research any identified variances between the adjusted bank and check register balances. Reviews of the reconciliation should be performed by someone other than the preparer and of a higher ranking job code. In addition, the reviews should be documented with a signature and date of review.

Management's Response:

The trust accounts were reconciled utilizing the QuickBooks software reconciliation function. When noted by Internal Audits that this method did not reconcile to the bank balances, a manual reconciliation was instituted. Records for FY 13/14 forward include both the QuickBooks reconciliation as well as the manual reconciliation. The monthly reconciliations to date are reviewed by someone of a higher ranking job code than the preparer and are documented by initials and date.



Auditor's Response:

The Department's actions will correct the deficiencies noted in this finding.

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

The Probation Department Trust Fund Procedures state that Fiscal Services should prepare a report of deposits, withdrawals and balances that will be 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. It also states that each director is responsible for oversight and review of their quarterly activities. The copy of the face sheet attached to the report should be signed, dated and returned to the issuing Fiscal Specialist within 14 calendar days.

A review of seven quarterly reports issued for Fiscal Years 2013 and 2014 revealed the following conditions:

- Face sheets were not being returned to Fiscal Services by every Division Director.
- It was unclear if the face sheets were returned within 14 calendar days due to lack of dates accompanied with the signatures or Department receipt date stamps.

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

Recommendation:

We recommend that Management review the reports and return the proof of review to Fiscal Services within 14 days, as documented in the Trust Fund Procedures.

Management's Response:

The internal procedure for trust accounts is in the final stages of revision/review/approval and will be published shortly. The quarterly reports were largely intended as an informational tool for Directors to use to make programming decisions, as most do not have direct access or use of the trusts. The revised procedure will clarify that oversight is the responsibility of the Deputy



Chief Administrator, therefore, the proof of review form will be provided by him or his designee within 14 days.

Auditor's Response:

The Department's planned actions will correct the deficiencies noted in the finding.

Finding 5: Internal controls over voided checks could be improved.

The County's Internal Controls and Cash Manual (ICCM) Chapter 9 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.

All ten checks tested did not have the signature lines torn off from the checks.

The Department is not familiar with the ICCM procedures on how to properly void checks. When a check's signature line is not torn off, the risk increases that a check may be inappropriately cashed.

Recommendation:

We recommend that checks are voided in accordance with the ICCM procedures. The supervisor overseeing the trust funds should review the void transactions periodically to ensure the required procedures are being followed.

Management's Response:

Since Internal Audits brought this to our attention, the signature lines for all checks to be voided are immediately torn off.

Auditor's Response:

The Department's actions will correct the deficiencies noted in this finding.