

County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section

Probation Department: Biennial Juvenile Trust Funds Audit



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Auditor-Controller/Treasurer/Tax Collector

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January 30, 2019

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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, we have completed an audit of the Probation Department for the period of July 1, 2016 through June 30, 2018. The primary objectives of the audit were to determine if internal controls over the juvenile trust funds were properly designed and effective and to determine whether the Department complied with Welfare and Institutions Codes 275 and 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 November 15, 2018 and discussed our observations with management on November 26, 2018. 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,

Ensen Mason, MBA, CPA, CFA

Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By

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Summary of Audit Results

We concluded that the Probation Department (Department) had areas where their internal controls over juvenile trust funds should be improved and that the Department was in compliance with Welfare and Institutions Codes Section 275 and 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: Bank reconciliation procedures were not performed in accordance with Internal Controls and Cash Manual (ICCM).	8
	Recommendation: The Department should familiarize themselves with the ICCM procedures for bank reconciliations.	
2	Finding: There are lack of controls over inventory purchases.	9
	Recommendation: We recommend that each Juvenile Detention and Assessment Center (JDAC) location track their trust fund purchases and notify Administrative Services (Admin) of their canteen and sensitive equipment inventory.	
3	Finding: Departmental procedures for trust fund disbursements were not followed.	10
	Recommendation: We recommend supervisory personnel provide training to staff to familiarize them with the Departmental policies and procedures.	
4	Finding: Deposits were not made in a timely manner.	11
	Recommendation: We recommend that the Department ensure that cash deposits are performed by the next business day when the amount of receipts reaches \$1,000 in cash and coin.	



- **Finding 1: Bank reconciliation procedures were not performed in accordance with the Internal Controls and Cash Manual (ICCM).**

We reviewed 20 bank reconciliations. All were reconciled past the 15th day of the following month. Date stamps were not present on 18 bank statements, therefore the actual date of receipt could not be determined.

- **Finding 2: There are lack of controls over inventory purchases.**

Sensitive equipment purchased with the juvenile trust fund monies for the Juvenile Detention and Assessment Centers (JDACs) are not properly recorded and reported through the Annual Sensitive Equipment Report. The canteen supplies purchased for the JDACs are not logged into a master list to keep a record of items purchased. There is no inventory listing kept or updated by staff and it is unknown of how many items are stored at the warehouse at any particular point in time.

- **Finding 3: Departmental procedures for trust fund disbursements were not followed.**

We reviewed 72 statistically selected disbursements, which included 56 requests for advances, 5 requests for reimbursements and 11 miscellaneous transactions that were bank charges or imaging fees. 33 out of the 56 advances did not have a date stamp of when receipts were received at Admin; thus, it is unknown if receipts were received within the departmental timeframe of 14 business days. 6 out of the 56 advances had receipts that were not within required timeframe. 5 out of the 72 transactions did not have both Requesting Party and the Supervisor signatures on each receipt. 5 out of the 72 transactions had purchases commingled with personal purchases and/or had non-approved items on receipt. 2 out of the 72 transactions had receipt dates that did not reflect the event date or service month requested.

- **Finding 4: Deposits were not made in a timely manner.**

We reviewed 54 transactions for timeliness. 2 deposits were not made in a timely manner. Monies received are held for as long as 32 days; for instance, a receipt for cash back was issued on June 19, 2017 and monies were not deposited until July 21, 2017. 8 deposits could not be tested for timeliness due to missing receipts or date stamp.



BIENNIAL JUVENILE TRUST FUNDS AUDIT

The Department

The Probation Department's (Department) mission is to protect the community through assessment, treatment, and control of adult and juvenile offenders by providing a range of effective services based on legal requirements and recognized professional standards. The Detention Corrections Bureau (DCB) operates Juvenile Detention and Assessment Centers that are responsible for housing male and female 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 San Bernardino County Probation Department operates three Juvenile Detention and Assessment Centers. The Bureau's mission is to provide a safe, secure and healthy environment which ensures the dignity and fulfills the needs of legally detained minors.

Detention Corrections Bureau

The DCB oversees the operation of all juvenile detention services, including two Juvenile Detention and Assessment Centers (JDAC) and the Gateway juvenile placement program.

- **Central Valley JDAC**
Located in the city of San Bernardino, the center has a Corrections Standard Authority capacity of 280 beds.
- **High Desert JDAC**
Located in Apple Valley, the center has a Corrections Standards Authority capacity of 200 beds.
- **Gateway Program**
Located in the city of San Bernardino, the center has a capacity of 40 beds. Developed in collaboration with the Department of Behavioral Health and other County agencies, the program utilizes evidence-based assessments, treatments and evaluations aimed at reducing recidivism.



The Trust Funds

The Département has 5 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



Scope and Objectives

Our audit examined the Probation Department's (Department) juvenile trust funds for the period of July 1, 2016 through June 30, 2018.

The objectives of our audit were to:

- Determine if the internal controls over the 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 Department staff
- Review of Department's policies and procedures
- Examination of original source documents
- Sampling of the receipt and disbursement transactions



Finding 1: Bank reconciliation procedures were not performed in accordance with the Internal Controls and Cash Manual (ICCM).

The ICCM Chapter 9-5 Bank Reconciliation states that departments must reconcile their records to the bank statement by the 15th day of the following month.

The following conditions were identified when we reviewed 20 bank reconciliations:

- All 20 bank reconciliations were reconciled past the 15th day of the following month.
- Date stamps were not present on 18 bank statements, therefore the actual date of receipt could not be determined.

The Department is not familiar with the bank reconciliation procedures outlined in the ICCM. Reconciling past the 15th day of the following month leads to a higher risk of discrepancies that may not be resolved or discovered, if they had been reconciled within a timely manner.

Recommendation:

We recommend that the Department should familiarize themselves with the ICCM procedures for bank reconciliations. The Department should reconcile the bank statements on or before the 15th day of the following month.

Management's Response:

Probation will revise department procedures, where needed, to ensure that bank statements are date stamped immediately upon receipt. The department understands the inherent risk of discrepancies with reconciling past the 15th day of the following month and will take every necessary step to ensure that reconciliations are completed per the ICCM timeframes.

Auditor's Response:

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



Finding 2: There are lack of controls over inventory purchases.

The San Bernardino County Code Section 11.0403, *Inventory Reports Required*, states that each County office or person in charge of any office, department, service, or institution of the County shall file with the County Auditor-Controller an inventory, under oath, showing in detail all County property in his possession or in his charge at the close of business on the preceding March 31. Fixed assets over \$5,000 are reported to the General Accounting Section as they are capitalized. Equipment that does not meet this capitalization threshold must be reported separately through the Annual Sensitive Equipment Report. In addition, the ICCM Chapter 2-3 Internal Controls states that all transactions and pertinent events should be accurately and properly recorded on documents and records. Sufficient and relevant data should be recorded to provide an audit trail and to document evidence that a transaction took place. It also states that assets should be recorded and access to and use of valuable assets should be controlled. A critical step in safeguarding assets is to record them at the time of acquisition and to verify their existence and value periodically.

The following conditions were noted:

- Sensitive equipment purchased with the juvenile trust fund monies for the Juvenile Detention and Assessment Centers (JDACs) are not properly recorded and reported through the Annual Sensitive Equipment Report.
- The canteen supplies purchased for the JDACs are not logged into a master list to keep a record of items purchased. There is no inventory listing kept or updated by staff and it is unknown of how many items are stored at the warehouse at any particular point in time.

Neither the Department nor the JDAC locations keep track of inventory that is purchased with the juvenile trust fund monies. Lack of accurate and proper inventory recordkeeping significantly increases the risk of loss, theft or embezzlement.

Recommendation:

We recommend that each JDAC location track their Trust Fund Equipment purchases and notify Administrative Services (Admin) of their inventory. We also recommend that the Department keep an up-to-date inventory listing of purchases made with trust fund monies, including their sensitive equipment inventory listing. The sensitive equipment should be filed with the Auditor-Controller/Treasurer/Tax Collector (ATC) on an annual basis. The Department should also record inventory purchased for canteens at the time of acquisition to ensure that supplies exist and are completely accounted for.



Management's Response:

Probation concurs with the above recommendation. The department will ensure that the JDAC locations are properly trained to keep an up-to-date inventory log of the items purchased using trust fund monies as well as notify Administrative Services of all Trust Fund Equipment purchases. Administrative Services will file all such sensitive equipment with the Auditor-Controller/Treasurer/Tax Collector (ATC) on an annual basis.

Auditor's Response:

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

Finding 3: 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. In addition, itemized receipts shall be submitted to Admin within 14 business days from the date of purchase, and the Requesting Party and their Immediate Supervisor shall sign and print their names on all receipts. Prior written approval should be obtained from a Division Director or a higher ranking employee. Further, trust fund purchases cannot be commingled with personal/non-trust fund approved items. Purchases must be made by the event date or service month and items for date specific events must be purchased prior to or on the date of the event. Transactions posted after the event date will be disallowed.

We reviewed 72 statistically selected disbursements, which included 56 requests for advances, 5 requests for reimbursements and 11 miscellaneous transactions that were bank charges or imaging fees. The following conditions were noted:

- 33 out of the 56 advances did not have a date stamp of when receipts were received at Admin; thus, it is unknown if receipts were received within the departmental timeframe of 14 business days.
- 6 out of the 56 advances had receipts that were not within required timeframe.
- 5 out of the 72 transactions did not have both Requesting Party and the Supervisor signatures on each receipt.



- 5 out of the 72 transactions had purchases commingled with personal purchases and/or had non-approved items on receipt.
- 2 out of the 72 transactions had receipt dates that did not reflect the event date or service month requested.

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

Recommendation:

We recommend that the supporting documentation be date-stamped upon receipt at Admin. Supervisory personnel should provide training to staff to familiarize them with the Departmental policies and procedures, such as submitting receipts with proper signatures within the required timeframe. We also recommend that trust fund purchases not be commingled with personal purchases on receipts or that checks be combined for different activities. Monies should only be used for specified items as requested on green staff request form. We further recommend that supervisory personnel monitor and approve the disbursement process to ensure staff is complying with Department procedures. Green staff request forms should be completely filled out to ensure that receipt dates reflect the intended service month requested.

Management's Response:

Probation will ensure that all receipts and/or invoices are date stamped or marked with the date received at Admin Services. Specifically, the department will ensure that Requesting Party and the Supervisor signatures are on each receipt. The department will continue to train staff on the proper procedures for submitting invoices and related paperwork in a timely manner as well as on guidelines related to commingling personal purchases with legitimate trust fund transactions.

Auditor's Response:

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

Finding 4: Deposits were not made in a timely manner.

The ICCM Chapter 9-4 Bank Deposit Guidelines states that deposits of cash must be made by the next business day when the amount of receipts reaches \$1,000 in



cash and coin. For receipts of checks and money orders, deposits should be processed immediately.

The following conditions were identified when we reviewed 54 transactions:

- 2 deposits were not made in a timely manner.
 - Monies received are held for as long as 32 days; for instance, a receipt for cash back was issued on June 19, 2017 and monies were not deposited until July 21, 2017.
- 8 deposits could not be tested for timeliness due to missing receipts or date stamp.

Monies from class fees collected by outlying sites are not being submitted to Admin in a timely manner. Maintaining cash at outlying sites longer than necessary significantly increases the risk of loss, theft or embezzlement.

Recommendation:

We recommend that the Department ensure that cash deposits are made by the next business day when the amount of receipts reaches \$1,000 in cash and coin. If amount of receipts are less than \$1,000, we recommend that outlying sites be strongly urged to bring collected receipts directly to Admin on a regular basis.

Management's Response:

Probation concurs with the recommendation that receipts of \$1,000 or more be deposited by the next business day. The department will take active steps to ensure that this practice becomes common-place including, whenever possible, deposits from outlying sites. The department will further ensure that receipts are date stamped immediately received.

Auditor's Response:

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