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FIRST FOLLOW-UP INTERNAL CONTROL AUDIT: PROBATION DEPARTMENT GPS ELECTRONIC MONITORING PROGRAMS

As of July 31, 2012

Our First Follow-Up Audit found that Probation **Department** fully implemented recommendations, and six (6) recommendations are in process from our original audit report dated March 7, 2012. Probation has two types of **GPS Electronic Monitoring Programs in place:** Supervised Electronic Confinement (SEC)/Home Detention Program that is administered by a contractor, and Continuous **Electronic** Monitoring (CEM) **Program** internally administered by Probation.

AUDIT No: 1130-K (Original Audit No. 1127)

REPORT DATE: AUGUST 29, 2012

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RISK BASED AUDITING

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AlcPA American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management

2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays







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RISK BASED AUDITING

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Letter from Dr. Peter Hughes, CPA



Transmittal Letter



Audit No. 1130-K August 29, 2012

TO: Steven J. Sentman, Chief Probation Officer

Probation Department

FROM: Dr. Peter Hughes, CPA, Director

Internal Audit Department

SUBJECT: First Follow-Up Internal Control Audit:

Probation Department GPS Electronic

Monitoring Programs, Original Audit No. 1127

Issued March 7, 2012

We have completed a First Follow-Up Audit of internal controls over the Probation Department's GPS Electronic Monitoring Programs. Our audit was limited to reviewing, as of July 31, 2012, actions taken to implement **eight (8) recommendations** from our original audit. We conducted this First Follow-Up Audit in accordance with the *FY 11-12 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS). At the Audit Oversight Committee meeting on May 2, 2012, Internal Audit was directed to start this First Follow-Up Audit before the six months period typically given for a Follow-Up Audit.

The results of our First Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Our First Follow-Up Audit found the Probation Department implemented two (2) recommendations and six (6) recommendations are in process from our original audit report. As such, we will conduct a Second Follow-Up Audit approximately six months from the date of this report.

Each month I submit an **Audit Status Report** to the BOS where I detail any critical and significant control weaknesses 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 BOS.

Other recipients of this report are listed on the OC Internal Auditor's Report on page 5.

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Audit No. 1130-K August 29, 2012

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TO: Steven J. Sentman, Chief Probation Officer

Probation Department

FROM: Dr. Peter Hughes, CPA, Director,

Internal Audit Department

SUBJECT: First Follow-Up Internal Control Audit: Probation Department

GPS Electronic Monitoring Programs, Original Audit No. 1127

Issued March 7, 2012

Scope of Review

At the direction of the Audit Oversight Committee, we completed a First Follow-Up Audit of Probation Department's GPS Electronic Monitoring Programs. Our audit was limited to reviewing, as of July 31, 2012, actions taken to implement **eight (8) recommendations** from our original audit.

Background

Our original audit evaluated internal controls over billings, payments, and contract administration in the GPS Electronic Monitoring Programs, and compliance with County and Probation policy and procedures, and adherence to contractual requirements. Probation has two types of GPS Electronic Monitoring Programs in place: Supervised Electronic Confinement (SEC)/Home Detention Program, and Continuous Electronic Monitoring (CEM) Program. Probation uses a contractor to provide SEC/Home Detention services. The CEM Program is administered by the Probation Department.

Based on our original audit, we found controls and processes for the CEM Program to be adequate and effective. However, controls over the contracted SEC/Home Detention Program needed improvement, specifically in the areas of billing and contract administration. The original audit identified six (6) Significant Control Weaknesses and two (2) Control Findings to improve controls and processes over administration of the SEC/Home Detention Program.

Results

Our First Follow-Up Audit indicated Probation **fully implemented two (2) recommendations and six (6) recommendations are in process.** We believe the remaining six recommendations are still appropriate and further efforts should be made to fully implement them. Based on the first Follow-Up Audit we conducted, the following is the implementation status of the eight original recommendations:

1. <u>Billing of SEC Program Fees</u> (Significant Control Weakness)

Probation Department ensure accurate determination of the monthly fee billed to Sentinel and make adjustments to retrieve any additional money owed to the County for previous years of the contract.

<u>Current Status:</u> **Implemented.** Probation reviewed the non-refundable monthly fee amount and adjusted them to reflect Probation's actual employee salaries, benefits, services and supplies for providing SEC services. The new non-refundable monthly fees were assessed beginning in February 2012. We noted that Probation used appropriate billing rates per the contract for the monthly fee billed to Sentinel between March and July, 2012.



In addition, Probation worked with County Counsel and sent Sentinel two notices for breach of contract and demand for payment. Probation eventually received \$210,070 as Sentinel's outstanding balance from August 2011 through January 2012. That balance included an adjustment of \$34,069 for FY 2010-11. Because Probation took corrective action to review and adjust the non-refundable monthly fees, processed accurate billings subsequent to February 2012, and obtained the outstanding balance due from Sentinel, we consider this recommendation implemented.

Note: The Sentinel Agreement was renewed on May 22, 2012 and became effective July 1, 2012, renewable for four additional one-year periods. One of the changes in the new Agreement was to modify the billing of the monthly fee from the average number of daily participants, to a percentage (38%) of Sentinel's monthly gross receipts resulting from the Agreement. Although we consider this recommendation implemented, we will examine the new billing process in our Second Follow-Up Audit to be performed about six months from the date of this report.

2. <u>Determination of Program Costs</u> (Significant Control Weakness)

Probation Department periodically evaluate its costs and staffing needs to administer the SEC/Home Detention Program and make any adjustments to the contract with Sentinel for the non-refundable monthly fee to cover its program costs. This evaluation should determine if all applicable Probation personnel are included in the cost-recovery analysis.

<u>Current Status</u>: **Implemented.** Probation evaluated its costs and staffing needs to administer the SEC/Home Detention Program and adjusted the non-refundable monthly fees to reflect changes to County employee salaries, benefits, services or supplies. The new non-refundable monthly fees were assessed beginning in February 2012.

Probation renewed the Sentinel Agreement in May 2012. Effective July 1, 2012, monthly fees are based on a percentage of gross receipts received by the contractor. The new Agreement also contains the same provision whereby Probation shall conduct at the end of each year a review of actual costs to operate the SEC program, with any difference being refunded to, or paid by the County. Because Probation evaluated its costs and staffing needs to administer the SEC/Home Detention Program and made adjustments with Sentinel for the non-refundable monthly fee to cover SEC program costs, we consider this recommendation implemented.

3. SEC Program Fees Not Received Timely (Significant Control Weakness)

Probation Department ensure Sentinel submits the monthly non-refundable fee payment in a timely manner. If Sentinel is not compliant, Probation should consider assessing liquidating damages on Sentinel as allowable per the terms in the Agreement.

<u>Current Status:</u> **In Process.** Probation made formal demands for payment from Sentinel in January and February 2012 regarding being "severely delinquent in its payment of monthly fees to the County." Sentinel eventually paid all amounts due to the County. We tested five months of billings to determine if the fee payments were received timely. Based on our review of four (4) invoices, we found the timeliness of payment from Sentinel improved starting with the March 2012 invoice, as shown in the table below:

Invoice Date	Payment Due Date	Payment Received Date	Late Days
March 13, 2012 (for Feb.)	April 2, 2012	May 2, 2012	31
April 17, 2012 (for March)	May 7, 2012	May 7, 2012	0
May 10, 2012 (for April)	May 29, 2012	May 31, 2012	2
June 5, 2012 (for May)	June 25, 2012	June 18, 2012	0



Although Sentinel was not submitting the monthly fee payment timely, Probation Department did not assess liquidated damages as allowable per the terms in the Agreement. However, the initial demand for payment letter sent to Sentinel stated that Probation would assess liquidated damages if the payment was not received.

In the new Sentinel Agreement effective July 1, 2012, the liquidating damages provision was revised to a Late Fee charge (one and a half percent of the payment due plus \$100) if the monthly fee is not received by the specified due date. Because Probation took corrective action to ensure Sentinel submits payments timely, has established a late fee charge provision in the new Sentinel Agreement and plans to implement it with the new Agreement, we consider this recommendation in process.

<u>Planned Action</u>: Should Sentinel not submit payments by the due date, the Probation Department will use the Late Fee charge provision included in the new agreement, which became effective July 1, 2012. The July 2012 invoice, the first under the new agreement, was mailed to Sentinel on August 20, 2012, and payment from Sentinel is due by September 7, 2012, assuming the invoice is received by Sentinel on August 21, 2012.

4. Responsibility for Receipt and Review of Monthly Contractor Statements Not Clearly Defined (Significant Control Weakness)

Probation Department define responsibility for receiving and reviewing the monthly statements provided by Sentinel.

<u>Current Status:</u> **In Process.** In conjunction with the new Sentinel Agreement effective July 1, 2012, Probation drafted policy and procedures that define responsibility for receiving, reviewing and verifying information in the monthly statements submitted by Sentinel. The draft procedures define responsibilities for Probation's Contract Manager, Fiscal Administrator, and the SEC Program Manager's receipt, review and verification of information in the monthly reports to ensure accuracy and completeness. Because Probation is working towards developing and implementing policy and procedures regarding responsibility for receiving and reviewing monthly Sentinel statements, we consider this recommendation in process.

<u>Planned Action</u>: The Probation Department will use the newly established policies and procedures for receiving and reviewing the monthly statements forwarded by Sentinel. Specifically, after receipt of the monthly statement by the Contract Manager, the Contract Manager will distribute copies of the monthly statement to the Fiscal Administrator and to the Program Manager. The Fiscal Administrator will audit between 2-5% of offender financial records each quarter to determine if the information provided by Sentinel is accurate. The monthly statements will be reviewed to follow individual cases from the effective date of monitoring to termination from the program. A summary of findings will be documented, along with action taken to resolve any problems found. Probation may adjust the percentage of offender financial records reviewed each quarter, based upon historical findings.

5. Contractor Quality Control Plan Needs Enhancements (Significant Control Weakness)

Probation Department ensure Sentinel establish and maintain a formal and signed Quality Control Plan to ensure that the requirements of the Contract are met. An updated copy must be provided to Probation as changes occur.

<u>Current Status:</u> In Process. Due to remaining short term (three months) of the contract after original audit report was issued, Probation did not take action to ensure that Sentinel established and maintained a formal and signed Quality Control Plan. However, with the new Sentinel Agreement effective July 1, 2012, Sentinel is again required to establish and maintain a Quality Control Plan.



An updated copy must be provided to Probation's Project Director on the contract start date and as changes occur. Because Probation is working towards obtaining Quality Control Plan from Sentinel, we consider this recommendation in process.

<u>Planned Action</u>: The Probation Department will maintain a copy of Sentinel's signed Quality Control Plan (QCP), and will request that any updates implemented be provided during the monthly meeting between the parties. Sentinel will be required to re-submit their QCP during the annual renewal of their contract, if the County elects to renew the contract.

6. Contractor Quality Assurance and Performance Requirements Not Evaluated (Significant Control Weakness)

Probation Department ensure contractor performance requirements are evaluated and documented using quality assurance procedures specified in the contract.

<u>Current Status</u>: **In Process.** Due to remaining short term (three months) of the contract after the original audit report was issued, Probation did not evaluate contractor performance requirements using quality assurance procedures. In the new Sentinel Agreement effective July 1, 2012, specific quality assurance standards are included, such as late fees charged to contractor for late payment; unannounced visits to contractor's laboratory for inspecting conditions; record keeping reviews; maintenance of minimum equipment failure rate; monetary penalties for nonconformance by contractor; and failure to inform assigned Deputy Probation Officer of a zone violation, tamper alarm incident, or alert. Probation plans to evaluate and document contractor performance and has drafted policies and procedures. Because Probation developed contractor performance evaluation policies and procedures and plans to implement them with the new Agreement, we consider this recommendation in process.

<u>Planned Action</u>: The Probation Department will use the newly established policies and procedures to ensure contractor performance requirements are evaluated and documented.

7. Number of SEC Program Participants Not Verified (Control Finding)

Probation Department implement a process to periodically verify the number of daily SEC Program Participants provided by Sentinel.

<u>Current Status:</u> **In Process.** Probation did not implement a process to periodically verify the number of daily SEC Program Participants provided by Sentinel because of the remaining short term (three months) of the contract. However, the new contract between Sentinel and the County effective July 1, 2012, modified the non-refundable monthly fee structure to 38% of monthly Gross Receipts, whereby reporting of average number of daily SEC Program Participants is not required.

Probation developed draft policies and procedures to verify SEC Program participants by having the Fiscal Administrator audit between 2%-5% of offender financial records each quarter to determine the accuracy and completeness of reported gross receipts. In addition, the SEC Program Manager will reconcile at least twice per month Probation's daily list of monitored offenders with the daily list from Sentinel. Because Probation modified the monthly fee payment structure in the new contract by eliminating the calculation of average number of daily SEC Program Participants, and established draft procedures to periodically verify gross receipts and program participants in Sentinel's reports, we consider this recommendation in process.

<u>Planned Action</u>: The SEC Program Manager will periodically reconcile, at least twice per month, Probation's daily list of monitored offenders with the daily list provided by Sentinel. A summary of findings will be documented, along with action taken to resolve any problems found.



8. No Supervisory Review and Approval of SEC Annual Reconciliation (Control Finding)

Probation Department ensure a Supervisor documents their review and approval of the SEC/Home Detention Program *Annual Reconciliation Package* to ensure accuracy and completeness of the reconciliation.

<u>Current Status:</u> **In Process.** Probation is in process of preparing the *Annual Reconciliation Package* for fiscal year 2011-12. Probation will ensure that *Annual Reconciliation Package* supervisory review is formally documented to ensure accuracy and completeness of the reconciliation. Because Probation is still working towards implementing documented supervisory review of *Annual Reconciliation Package*, we consider this recommendation in process.

<u>Planned Action</u>: The Fiscal Administrator will prepare the *Annual Reconciliation Package* after the County's Year-End Close. The Fiscal Administrator will submit the proposed annual reconciliation billing, with supporting documentation, to the Fiscal Manager for review and approval, which will be evidenced by the signature of the Fiscal Manager.

We appreciate the courtesy extended to us by Probation staff during our Follow-Up Audit. If you have any questions, please contact me directly or Eli Littner, Deputy Director at 834-5899, or Michael Goodwin, Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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