

# Internal Audit Department

O R A N G E C O U N T Y  
6<sup>th</sup> Largest County in the USA

## FIRST FOLLOW-UP INTERNAL CONTROL AUDIT:

## PROBATION DEPARTMENT PUBLIC SAFETY REALIGNMENT (AB109)

AS OF OCTOBER 31, 2014

Our First Follow-Up Audit found that the Probation Department has implemented two (2) recommendations, partially implemented one (1) recommendation, and has two (2) recommendations in process from our original audit report dated February 18, 2014. We audited internal controls and compliance over accounting and budgeting processes for tracking and claiming AB109 expenditures at the request of the Probation Department. In Fiscal Year 12-13, Probation claimed expenditures totaling \$10.6 million for Public Safety Realignment.

AUDIT NO: 1323-F1  
(REFERENCE 1429)  
ORIGINAL AUDIT NO. 1323

REPORT DATE: FEBRUARY 11, 2015

**Director:** Dr. Peter Hughes, MBA, CPA, CIA  
Assistant Director/Senior Audit Manager: Michael Goodwin, CPA, CIA  
Audit Manager: Kenneth Wong, CPA, CIA

### RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010, 2013



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



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach



ORANGE COUNTY BOARD OF SUPERVISORS'  
Internal Audit Department

*GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010, 2013*

*Providing Facts and Perspectives Countywide*

**RISK BASED AUDITING**

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**OC Fraud Hotline (714) 834-3608**



## Transmittal Letter



**Audit No. 1323-F1 February 11, 2015**

**TO:** Steven Sentman, Chief Probation Officer  
Probation Department

**FROM:** Dr. Peter Hughes, CPA, Director  
Internal Audit Department

**SUBJECT:** First Follow-Up Internal Control Audit:  
Probation Department Public Safety  
Realignment (AB109), Original Audit No.  
1323, Issued February 18, 2014

We have completed a First Follow-Up Internal Control Audit of Probation Department Public Safety Realignment (AB109). Our audit was limited to reviewing, as of October 31, 2014, actions taken to implement the **five (5) recommendations** from our original audit report dated February 18, 2014. We conducted this First Follow-Up Audit in accordance with the *FY 14-15 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

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 that the Probation Department has **implemented two (2) recommendations, partially implemented one (1) recommendation, and has two (2) recommendations in process** from our original audit report.

A Second Follow-Up Audit will be conducted approximately six months from the date of this report on the three (3) remaining recommendations.

Each month I submit an **Audit Status Report** to the BOS where I detail any material 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 BOS.

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 4.

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Probation Department  
Public Safety Realignment (AB109)  
Audit No. 1323-F1***

As of October 31, 2014

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# OC Internal Auditor's Report



Audit No. 1323-F1

February 11, 2015

TO: Steven Sentman, Chief Probation Officer  
Probation Department

FROM: Dr. Peter Hughes, CPA, Director  
Internal Audit Department

SUBJECT: First Follow-Up Internal Control Audit: Probation Department Public Safety Realignment (AB109), Original Audit No. 1323, Issued February 18, 2014

## Scope of Review

We have completed a First Follow-Up Audit of Probation Department Public Safety Realignment (AB109). Our audit was limited to reviewing actions taken, as of October 31, 2014, to implement the **five (5) recommendations** from our original audit report.

## Background

At the request of the Probation Department, we audited Probation's internal controls to ensure compliance with selected aspects of the legislative intent and government codes associated with the Public Safety Realignment Act. We also evaluated the Probation Department's accounting and budgetary processes for tracking and claiming expenditures. In fiscal year 2012-2013, Probation claimed expenditures totaling \$10.6 million for fulfilling Public Safety Realignment responsibilities. The original audit identified **one (1) Significant Control Weakness** and **four (4) Control Findings** concerning accounting and budget practices for claiming AB109 expenditures.

## Results

Our First Follow-Up Audit found the Probation Department has **implemented two (2) recommendations, partially implemented one (1) recommendation, and has two (2) recommendations in process.** We believe the remaining three (3) recommendations are still appropriate and efforts should be made to fully implement them.

Based on the Follow-Up Audit we conducted, the following is the implementation status of the five (5) original recommendations along with Planned Actions from the Probation Department for items not fully implemented.

### 1. **No Claim Processing Policies and Procedures (Significant Control Weakness)**

Probation establish written policies and procedures for the Public Safety Realignment expenditure claims process. Documented policies and procedures should be reviewed and approved by the Probation Department's management and current versions need to be readily accessible for reference by personnel responsible for the expenditure claim process.

Current Status: **In Process.** Probation prepared draft policies and procedures for the Public Safety Realignment expenditure claims process. The draft document included an overview for compiling the salaries and supplies for department personnel assigned to the program. However, the draft policies and procedures did not address the following elements that would be helpful in describing the Public Safety Realignment claiming process:

- a. Claim schedule calculations, including samples of documents to support the claims for chargebacks from other County departments/agencies and reimbursement requests from local law enforcement agencies.



- b. Allowable costs for proper and efficient performance of the program's objectives.
- c. Schedule, calendar or due date to complete the claim.
- d. Oversight roles and responsibilities for the reviewing manager to ensure claims are accurate and verified to be necessary and reasonable expenses incurred.
- e. Process to submit the claim to the Auditor-Controller.
- f. Identification of claim schedule objectives, risks and internal controls in place to mitigate or prevent the risks from occurring.

Well documented policies and procedures provide guidance to current and new staff of assigned responsibilities and steps needed for processing the quarterly claims. Because Probation has taken preliminary steps in drafting policies and procedures for claim processing, but has not yet included the above elements in the draft document, we consider this recommendation in process.

Planned Action: Probation will review these suggested changes to our draft policies and procedures and determine the best method for incorporating these additions.

## 2. Data Entry Errors in Support Schedules (Control Finding)

Probation ensure that independent, detailed desk reviews be performed, documented and retained on Public Safety Realignment claims and supporting schedules to ensure validity and accuracy of data and amounts shown.

Current Status: **In Process.** Probation assigned the responsibilities for preparing and performing a detailed desk review of quarterly Public Safety Realignment claims and supporting schedules to a Staff Specialist and Administrative Manager, respectively. By having another individual performing an independent and detailed desk review, Probation decreases the risk of errors occurring. We reviewed the claim for the quarter ended June 30, 2014 and noted the following low value data entry errors that were not detected in the review process:

- a. In one (1) instance, salaries and benefits for 5 hours from a Probation staff member assigned part-time to the Post Release Community Mandatory Supervision program was not entered and claimed.
- b. In two (2) instances, salaries and benefits for 4.5 hours of armed assignment pay for a staff member was not entered and claimed.

In addition, we found that the claim and supporting schedules did not show: (1) any notations (e.g., tickmarks, initials, footing/cross footing) made by the reviewer to evidence a review of the data was completed; or (2) the preparer's and reviewer's names to evidence accountability. Because Probation has assigned the responsibilities for preparing and performing a detailed desk review of quarterly claims to separate individuals, but low value data entry errors were not detected in the review process, and we did not see evidence of the detailed review, we consider this recommendation in process.

Planned Action: Probation will begin including the suggested notations of review on the 1<sup>st</sup> Quarter Claim for FY 14/15.



### 3. **County Paid Retirement Benefits were Incorrectly Calculated (Control Finding)**

Probation ensure its expense claims include County paid retirement benefits incurred from pay factors prescribed by the retirement system and collective bargaining agreements.

Current Status: **Partially Implemented.** We reviewed ten (10) staff members with pay factors other than base salary and noted that in all instances Probation accurately claimed County paid retirement benefits incurred as prescribed by the retirement system and collective bargaining agreements. The pay factors tested were overtime pay, night shift differential pay, bilingual pay, and armed assignment pay.

We reviewed the claim for the quarter ended June 30, 2014 and noted the employees represented by the Orange County Employees Association (OCEA) in the Probation Services Unit received a one-time, off schedule lump sum payment equivalent to 1.25% of their salaries totaling \$64,600. However, it was noted that Probation did not claim the expense of County paid retirement benefits incurred from the one-time, off schedule lump sum payment.

Because Probation correctly claimed County paid retirement benefits for a majority of pay factors prescribed by the retirement system and collective bargaining agreements, but County paid retirement benefits were not claimed for the one-time, off schedule lump sum payment, we consider this recommendation as partially implemented.

Planned Action: Probation will continue to make every effort to maximize cost reimbursement for AB109 operations, including on future one-time, off schedule lump sum payments.

### 4. **Incomplete Service Data from Law Enforcement Agencies (Control Finding)**

Probation ensure service data reported by local law enforcement agencies comply with the requirements in the Memorandums of Procedures and Understanding.

Current Status: **Implemented.** We reviewed five (5) reimbursement claims received from local law enforcement agencies for the quarter ended June 30, 2014 and noted that in all instances the service data provided: (a) the specific dates of service; (b) names of law enforcement personnel; (c) hourly and overtime rates of law enforcement personnel rendering services; and (d) number of service hours performed. Since we found no testing exceptions and the service data reported by local law enforcement agencies complied with the requirements of the Memorandums of Procedures and Understanding, we consider this recommendation implemented.

### 5. **Review of Law Enforcement Service Hours Not Documented (Control Finding)**

Probation ensure service data reported by local law enforcement agencies is reviewed prior to reimbursement and indicates the reviewer's name and date reviewed.

Current Status: **Implemented.** We reviewed five (5) reimbursement claims received from local law enforcement agencies for the quarter ended June 30, 2014 and noted that in all instances a review was performed and documented prior to reimbursement. Since Probation ensured service data reported by local law enforcement agencies was reviewed and documented prior to reimbursement, we consider this recommendation implemented.



# OC Internal Auditor's Report



We appreciate the assistance extended to us by Probation Department personnel during our Follow-Up Audit. If you have any questions, please contact me directly at 834-5475 or Michael Goodwin, Assistant Director/Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors  
Members, Audit Oversight Committee  
Frank Kim, Acting County Executive Officer  
Mark Denny, Chief Operating Officer  
Chris Bieber, Chief Deputy Probation Officer, Field Operations Bureau  
Bryan Prieto, Chief Deputy Probation Officer, Operations Support Bureau  
Sue DeLacy, Director, Probation Post Release Community Support Division  
Ian Rudge, Director, Probation Administrative and Fiscal Division  
Foreperson, Grand Jury  
Clerk of the Board of Supervisors  
Macias Gini & O'Connell LLP, County External Auditor