



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

# AUDIT OF PROBATION DEPARTMENT INTERNAL CONTROLS

## For the Fiscal Years Ending June 30, 2014 and June 30, 2015



Audit Number 1567  
Report Date: February 24, 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

**Eric H. Woolery, CPA**  
**Orange County Auditor-Controller**

<b>Toni Smart, CPA</b>	<b>Director, Internal Audit</b>
<b>Nancy N. Ishida, CPA</b>	<b>Senior Audit Manager</b>
<b>Richard Son, CPA</b>	<b>Senior Auditor</b>
<b>Scott Kim, CPA</b>	<b>Senior Auditor</b>
<b>Zan Zaman</b>	<b>Auditor</b>

**12 Civic Center Plaza, Room 200**  
**Santa Ana, CA 92701**

Auditor-Controller Web Site  
[www.ac.ocgov.com](http://www.ac.ocgov.com)



**ERIC H. WOOLERY, CPA**  
AUDITOR-CONTROLLER



**Transmittal Letter**

**Audit No. 1567**

**February 24, 2016**

**TO:** The Honorable Charles Margines  
Presiding Judge of the Superior Court  
County of Orange

**SUBJECT:** Audit of Probation Department Internal Controls  
Over Juvenile Records and Accounts

We have completed our Audit of the Probation Department's Internal Controls over Juvenile Records and Accounts for the Fiscal Years Ending June 30, 2014, and June 30, 2015, as required by Chapter 2, Section 275(b) of the Welfare and Institutions Code. Enclosed is a copy of the report. Please feel free to call me should you wish to discuss any aspect of our audit report.

Additionally, we will be forwarding a Customer Survey of Audit Services to the Probation Department for completion. The Probation Department will receive the survey shortly after the distribution of this 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
- Steven J. Sentman, Chief Probation Officer, Probation Department
- Bryan Prieto, Chief Deputy Probation Officer, Probation Department
- Dana Schultz, Director, Administrative and Fiscal Division, Probation Department
- Jean Yu, Director, Information Technology Division, Probation Department
- Franco Cheuk, Information Technology Division, Probation Department
- Armond Nazaar, Accounting Manager, Probation Department
- Robin Stieler, Clerk of the Board of Supervisors
- Foreperson, Grand Jury



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Over Juvenile Records and Accounts  
Audit No. 1567*

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# Independent Auditor's Report

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February 24, 2016

The Honorable Charles Margines  
Presiding Judge of the Superior Court  
County of Orange

We have completed an audit of the Juvenile Division's books and accounts for the Orange County Probation Department (Probation) for the fiscal years ending June 30, 2014, and June 30, 2015, as required by Chapter 2, Section 275(b) of the Welfare and Institutions Code. Our audit included an evaluation of Probation's internal controls and processes relating to disbursements, case file set-up of juvenile probation cases, and selected information technology application controls to ensure the integrity, confidentiality, and availability of information system resources as they relate to Probation's financial system, known as the Integrated Probation Financial System. Our audit was performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States for the purpose of evaluating the adequacy and effectiveness of internal controls. We believe that our audit provides a reasonable basis for our opinion.

Probation's management is responsible for establishing and maintaining a system of prudent internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition and transactions are executed in accordance with management's authorization and recorded properly. This audit enhances but does not substitute for Probation's continuing emphasis on control activities and self-assessment of control risk.

Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. 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 that the degree of compliance with the procedures may deteriorate. Our audit, performed for the limited purpose described above, would not necessarily disclose all material weaknesses in Probation's operating procedures, accounting practices, and compliance with County policy as they relate to the internal controls over Probation's books and accounts.

Based on our audit, Probation's internal controls over its books and accounts relating to juveniles are generally adequate and effective to ensure management's goals and objectives are accomplished in accordance with Chapter 2, Section 275(b) of the Welfare and Institutions Code. We did not note any material weaknesses during the audit. However, we did note two areas where internal controls should be strengthened, and these issues are discussed in the Detailed Findings, Recommendations, and Management Responses section of this report. The responses from Probation Department Management have been included for the recommendations, and the complete text of their responses has been appended to the report.

We appreciate the courtesy and cooperation extended to us by the personnel of the Probation Department during our audit. If we can be of further assistance, please contact me at directly at (714) 834-5442 or Nancy Ishida, Senior Audit Manager at (714) 796-8067.

A handwritten signature in blue ink, appearing to read "Toni Smart", is written over a light blue horizontal line.

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



# Independent Auditor's Report

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## OBJECTIVES

We have completed an audit of the Juvenile Division's books and accounts for the Orange County Probation Department (Probation) for the fiscal years ending June 30, 2014, and June 30, 2015, as required by Chapter 2, Section 275(b) of the Welfare and Institutions Code.

Our audit included an evaluation of Probation's internal controls and processes relating to disbursements, case file management for juvenile probation cases, and selected information technology application controls to ensure the integrity, confidentiality, and availability of information system resources as they relate to Probation's financial system, known as the Integrated Probation Financial System (IPFS). Our audit was performed in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States for the purpose of evaluating the adequacy and effectiveness of internal controls. We believe that our audit provides a reasonable basis for our opinion.

## RESULTS

Based on our audit, Probation's internal controls over its books and accounts relating to disbursements and case file management of juvenile cases are generally adequate and effective to ensure management's goals and objectives are accomplished in accordance with Chapter 2, Section 275(b) of the Welfare and Institutions Code. However, we identified one control deficiency related to timely data input and another related to segregation of duties.

These issues are discussed in the Detailed Finding, Recommendation, and Management Response section of this report. The responses from Probation have been included for the recommendations and the complete text of their responses has been appended to the report. See Attachment A for a description of report item classifications. Brief descriptions of the recommendations are listed below:

### **Timely Integrated Probation Financial System (IPFS) Set-up of Juvenile Cases**

Ensure that juvenile cases are set up in IPFS within a timely period.

### **Information Technology (IT) Application Control**

Segregate the Information Technology Division's roles so that no user has both operational and system roles.

## BACKGROUND

The Orange County Probation Department is a criminal justice agency whose primary focus is on adult and juvenile offenders who are charged with or convicted of crimes. Probation is one of the County departments that have been impacted by the State's AB109 Prison Realignment Program which requires the Probation Department to supervise a new population of adult offenders. Probation is divided into three key service bureaus: Juvenile Intake and Detention, Field Operations, and Operations Support.

These bureaus are managed by a Chief Probation Officer, three Chief Deputy Probation Officers, and fifteen Division Directors. The Probation Department operates four juvenile correctional institutions that have a combined state-rated capacity of 738 beds. These include the secure detention facility at Juvenile Hall as well as three non-secure juvenile institutions: Joplin Youth Center, the Youth Guidance Center, and the Youth Leadership Academy.

Probation protects the community by conducting investigations for the court, enforcing court orders, assisting victims, and facilitating the re-socialization of offenders. Probation is headed by the Chief Probation Officer and, based on the 2012 Probation Department Business Plan, employs about 1,300 regular employees.



# Independent Auditor's Report

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The department also utilizes the services of about 541 volunteers who are essential in carrying out the department's mission and vision. Probation officers supervise approximately 13,150 adult and 5,775 juvenile offenders. The main goal of the Probation Department is to reduce recidivism.

Probation has the fiduciary responsibility for a variety of monies, including monies for fines, fees, penalty assessments, restitution to victims, and charges for services provided. Probation uses its IPFS system to record the receipt and payment of these monies. Probation maintains trust funds that are used for the collection and disbursement of monies. Probation also administers a number of federal and state grant programs.

## SCOPE AND METHODOLOGY

Our audit focused on Probation's internal controls and processes over trust fund reconciliations, disbursements, the Ward Welfare Fund, case file management of juvenile probation cases, and selected information technology application controls to ensure that the IPFS application has adequate controls in place to ensure that the information processed is accurate and complete. The audit period covered the two fiscal years ending June 30, 2014, and June 30, 2015. Chapter 2, Section 275(b) of the Welfare and Institutions Code requires an audit of the books and accounts relating to juvenile cases. Although the Probation Department oversees both adult and juvenile cases, we limited our audit to include juvenile cases and related issues. The main trust funds we reviewed were Fund 347 (Probation Trust Fund) and Fund14R (Ward Welfare Fund). Although Fund 347 includes both adult and juvenile monies, we limited our testing to juvenile transactions. Our information technology procedures included the testing of application controls.

Our methodology included inquiry, auditor observation, and testing of pertinent documentation for the purpose of assessing the adequacy and effectiveness of Probation's internal controls and processes. Our planning process included an analysis of internal controls based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework and considered risks that could potentially impact the audit.

## 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 their next scheduled meeting for discussion.

## 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."





# Independent Auditor's Report

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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 834-5442, or Nancy Ishida, Senior Audit Manager, at 796-8067.





# Detailed Findings, Recommendations and Management Responses

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## **Timely IPFS Set-up of Juvenile Cases**

### **Finding No. 1 – IPFS Set-up of Two Juvenile Cases was not Timely (Control Finding)**

**The case file inputs for two out of twenty sampled cases were not performed timely.**

#### **Condition**

We sampled 20 juvenile cases and found that 2 took longer than 30 days from the court dates on their minute orders to set up in IPFS. One case with a court date of October 2013 took 96 business days to set up and the other with a court date of October 2014 took 86 business days.

#### **Criteria**

Probation strives to set up court cases in IPFS as soon as they are submitted. Probation considers set-up to be timely if it is done within one month or 30 days of the court date on the minute order.

#### **Cause**

Probation began implementation of a new Statement of Cost (SOC) Worklist process in 2013 that automatically creates a list that identifies cases for Probation's accounting office to set up in IPFS, Probation's financial system. Probation's Information Technology Division was building an algorithm to pick up cases for the SOC Worklist during the implementation phase. The two delayed cases occurred during implementation so the SOC Worklist did not pick them up, causing their delayed input into IPFS. The cases were eventually found by Collections or Probation officers and the program algorithms were adjusted accordingly.

#### **Effect**

The late input of cases into IPFS delays subsequent processes that require financial information from IPFS.

## **Recommendation No. 1**

We recommend that Probation ensure that juvenile cases are input into IPFS timely.

### **Probation Management Response:**

The Probation Department concurs with the recommendation. As mentioned in the report, these delayed cases occurred during implementation of a new Statement of Cost Worklist process. Probation's Information Technology Department has already adjusted the algorithms based on these cases. Probation will continue to review the case set up process and make changes when needed to prevent future delays in cases from happening again. Probation is also reviewing cases created in the past 6 months to ensure there were no other delayed cases or further adjustments to the algorithm needed at this time.

## **Information Technology Controls**

Probation should strengthen information technology (IT) internal controls over the proper segregation of duties.



# Detailed Findings, Recommendations and Management Responses

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## Finding No. 2 – IPFS User with Conflicting Roles (Significant Control Weakness)

**IPFS Senior Applications Developer had both operational and systems roles resulting in improper segregation of duties.**

### Condition

Review of the sampled “IPFS Security Access by Users” report in IPFS showed that the IPFS Senior Applications Developer had both supervisor collection officer roles in addition to system function roles resulting in an improper segregation of duties.

### Criteria

The County Accounting Manual S-2 **Internal Control Systems** section 3.1 states, “Key duties such as authorizing, approving or recording transactions, issuing or receiving assets, making payments, and reviewing or auditing shall be assigned to separate individuals to minimize the risk of loss.” It is also a best practice to ensure that system programmer roles are adequately segregated from operational user roles.

### Cause

Due to staffing shortages, the IPFS IT Applications Developer was given operational roles for the purposes of assisting other IPFS users on operational issues. This resulted in the IPFS IT user having both systems and operational roles in IPFS.

### Effect

The inadequate segregation of system programmer roles from operational user roles increases the risk that unauthorized changes could occur and not be detected.

## **Recommendation No. 2**

We recommend that Probation management ensure that no user has both operational and systems programmer roles so that conflicting roles can be appropriately segregated.

### **Probation Management Response:**

The Probation Department concurs with the recommendation and recognizes the importance of proper segregation of duties. Due to vacancies within the IT Financial System support team, the IT supervisor has temporarily taken over a role that was assigned to one of these vacant positions. Probation is currently recruiting to fill this position. In the meantime, the following procedure is in place to ensure the IT supervisor’s access is appropriate:

- The IT supervisor has READ-ONLY access in IPFS.
- When there is a need for the IT supervisor to have certain access rights to IPFS; a request must be sent to the IPFS supervisor, who manages the IPFS functions.
- After the task has been completed, the IPFS supervisor is notified to reset the access in IPFS to the default of READ-ONLY.



# Detailed Findings, Recommendations and Management Responses

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## 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 Management Responses



**STEVEN J. SENTMAN**  
CHIEF PROBATION OFFICER  
TELEPHONE: (714) 569-2000  
1055 N. MAIN STREET, 5<sup>TH</sup> FLOOR  
SANTA ANA, CA 92701  
MAILING ADDRESS:  
P.O. BOX 10260  
SANTA ANA, CA 92711-0260

February 24, 2016

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

Attention: Nancy Ishida, Senior Audit Manager

Please see below for our responses to the finding identified during your audit of the books and accounts of juvenile transactions of the County of Orange Probation Department for the two fiscal years ended June 30, 2014 and June 30, 2015.

### Timely IPFS Set-up of Juvenile Cases

**Finding No. 1 – IPFS Set-up of Two Juvenile Cases was not Timely (Control Finding)**

The case file inputs for two out of twenty sampled cases were not performed timely.

#### **Probation Management Response:**

The Probation Department concurs with the recommendation. As mentioned in the report, these delayed cases occurred during implementation of a new Statement of Cost Worklist process. Probation's Information Technology Department has already adjusted the algorithms based on these cases. Probation will continue to review the case set up process and make changes when needed to prevent future delays in cases from happening again.-Probation is also reviewing cases created in the past 6 months to ensure there were no other delayed cases or further adjustments to the algorithm needed at this time.

### Information Technology Controls

**Finding No. 2 – IPFS User with Conflicting Roles (Significant Control Weakness)**

IPFS Senior Applications Developer had both operational and systems roles resulting in improper segregation of duties.

#### **Probation Management Response:**

The Probation Department concurs with the recommendation and recognizes the importance of proper segregation of duties. Due to vacancies within the IT Financial System support team, the IT supervisor is has temporarily taken over a role that was assigned to one of these vacant positions. Probation is



# Detailed Findings, Recommendations and Management Responses

## ATTACHMENT B: Probation Management Responses

currently recruiting to fill this position. In the meantime, the following procedure is in place to ensure the IT supervisor's access is appropriate:

- The IT supervisor has READ-ONLY access in IPFS.
- When there is a need for the IT supervisor to have certain access rights to IPFS; a request must be sent to the IPFS supervisor, who manages the IPFS functions.
- After the task has been completed, the IPFS supervisor is notified to reset the access in IPFS to the default of READ-ONLY.

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

  
\_\_\_\_\_  
Steven J. Sentman, Chief Probation Officer

2/24/16  
Dated

  
\_\_\_\_\_  
Dana Schultz, Director,  
Administrative and Fiscal Division, Probation

2/24/16  
Dated

  
\_\_\_\_\_  
Franco Cheuk, Interim Director,  
Information Technology Division, Probation

2/24/16  
Dated