



OFFICE OF THE
COUNTY AUDITOR-CONTROLLER

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August 21, 2007

Mr. Alan M. Crogan, Chief Probation Officer
Probation Department
4095 Lemon Street
Riverside, CA 92501

Subject: Internal Auditor's Report #2007-307 Probation Department Follow-Up and Change of Department Head Audit

Dear Mr. Crogan:

We have completed a follow-up audit of the Probation Department. The audit was limited to reviewing actions taken, as of April 16, 2007, to implement the recommendations made in our original audit report #2006-003, dated January 12, 2006. We also completed a review to verify that the department's Capital Assets and Revolving Funds were appropriately transferred with the change in Department Head effective March 26, 2007.

We conducted our audit in accordance with auditing standards established by the Institute of Internal Auditors. These standards require that we plan and perform the audit to provide sufficient, competent, and relevant evidence to achieve the audit objectives. We believe our work provides a reasonable basis for the conclusions reached.

The original audit contained 11 recommendations, all of which required implementation and therefore, were reviewed as part of this audit. Please refer to Internal Auditor's Reports #2006-003 for an in-depth understanding of the original audit results.

This follow-up audit found that of the 11 recommendations:

- Eight recommendations were fully implemented.
- Three recommendations were partially implemented.

Following is a summarization of our audit results on the transfer of accountability and the status of the findings and recommendations identified in the original audit report. We have attached a copy of the department's status report of corrective actions taken in response to our original audit report.

CHANGE OF DEPARTMENT HEAD

Transfer of Accountability

On March 26, 2007, a new Chief Probation Officer took office. Whenever there is a change in Department Head, the custody of all capital assets and revolving funds must be transferred to the

new Department Head. The department submitted the required Capital Asset Transfer, Standard Practice Manual (SPM) Form AM-1 and Revolving Fund Request Order and Change, SPM Form AR-1 to the Auditor-Controller's Office effective April 26, 2007.

FOLLOW-UP ON INTERNAL AUDITOR'S REPORT #2006-003

Purchasing

Finding 1: Purchase orders (POs) were created after the receipt of goods or services and/or receipt of vendor's invoice. Payment to vendors was relatively late.

Recommendation 1.1: We recommended that the department establish written internal purchasing procedures and controls which all buyers at the various institutions and field offices must adhere to. The procedures should establish approval levels for requisition forms and POs.

Current Status: **Fully Implemented.** The department issued procedures and instructions for accessing the County Purchasing Manual and provided training to staff. The department has conducted quarterly training sessions and issued a revised policy for purchase orders.

Recommendation 1.2: Controls should be established to ensure that buyers create the POs prior to ordering the goods or services. It was our understanding that certain food products may vary in price, thus the total PO amount may not always be known by the buyer. We recommended that in those situations, a requisition order be created and approved by management prior to placing the order and the PO should be created as soon as the total cost is known.

Current Status: **Partially Implemented.** The department implemented a standardized form, Purchasing Authorization Form (PAF) which is used to document management's approval prior to the creation of purchases orders and before the receipt of goods and services. The department identified that the agreed upon three day requirement to create a purchase order is not practical for the five 24/7 juvenile institutions and drafted a revised Food Purchases policy which extends the timeline from three to five days.

Recommendation 1.3: It was our understanding that each institution had its own internal requisition order(s) used to place orders with vendors. However, these requisition orders were not attached to the invoice used to process payment. If these requisition forms are used as informal POs or verification of order approval, then they should be attached to the invoice which is used for processing payment.

Current Status: **Fully Implemented.** The department created and implemented a standardized Purchasing Authorization Form (PAF) which is used to document management's approval prior to the creation of purchases orders and before the receipt of goods and services. The department established a monitoring and compliance log whereby all vouchers are reviewed, using established criteria prior to approval. While the department has implemented procedures that should correct the condition noted these procedures are not yet working as intended.

Finding 2: A good system of internal controls will ensure that the functions of ordering, authorizing, receiving, conducting physical inventories, and recording transactions are adequately separated to ensure that transactions are proper and to minimize the potential of error, theft, or fraud. During our testing of cash disbursements we noted that the department lacked adequate

segregation of duties. Our sample testing indicated that twenty-four out of seventy-five transactions tested did not appear to have adequate segregation of duties.

Recommendation 2.1: We recommended that the department establish written internal purchasing procedures and controls to ensure that the functions of ordering, authorizing, receiving, controlling inventory, and recording transactions are adequately separated.

Procedures should detail each position's responsibilities and authorization levels for each document such as requisition form, PO, packaging slip and invoice. Controls should be placed so that the personnel in charge of reviewing vouchers for payment do not authorize vouchers until all forms have been properly approved.

Current Status: **Partially Implemented.** The department developed a Purchasing Authorization Form (PAF) which is used to document management's approval prior to the creation of purchase orders before the receipt of goods and services. The department established a monitoring and compliance log whereby all vouchers are reviewed, using established criteria prior to approval. While the department has implemented procedures there still exists a weakness in the segregation of duties due to unfilled positions.

Recommendation 2.2: Further, we recommended that the department confirm the delivery of goods or services prior to approval of payment. Proper verification should be documented by the receiver (when applicable) or properly documented by the person approving the invoice for payment when no receiver is available. Verification can consist of either a signed packaging slip or a note on the invoice stating goods/services were verified with the proper individual(s) prior to approval.

Current Status: **Partially Implemented.** The department received Board of Supervisors approval for additional accounting and purchasing staff positions. As of the date of our review not all the approved positions had been filled, however when in place and properly assigned, these positions could be used to achieve adequate segregation of duties over the ordering, authorizing, receiving, controlling inventory, and recording functions.

Finding 3: We identified areas of non-compliance with purchasing policy as follows: Products were purchased at a higher price from a different vendor than the contracted vendor. The department paid above the contracted price for goods because the invoice price was not verified to the contractual price. Also, the department purchased products similar to those in the contract (different brand for example) at higher cost than contracted products. Additionally, the department continued to make purchases from a vendor with an expired contract even though a new contract was in place with a different vendor.

Recommendation 3.1: We recommended that institutional buyers be properly trained on the County Purchasing policies and procedures. Buyers should maintain a current copy of County awarded contracts which are pertinent to their needs. Utilizing the contracted vendors and contracted products will aid in ensuring the department pays reasonable prices and is in compliance with Purchasing Policy and contractual obligations with our vendors.

Based upon a benefit vs. cost determination, the department may consider to randomly, or periodically, reconcile the product's invoice prices to the vendor's contractual price agreement.

Current Status: **Fully Implemented.** The department provided training to institutional buyers on County Purchasing policies and procedures on January 10, 2006 and has conducted seven quarterly training sessions for the appropriate staff during the period January 2006 to August 2007.

Recommendation 3.2: Require the buyer at Twin Pines Ranch to adhere to County Purchasing policy. Prior to placing food orders from the same vendor, all qualifications (price, reliability, quality, delivery, etc) should be taken into consideration.

Current Status: **Fully Implemented.** The department issued an internal policy on purchasing food items which required issuance of a requisition within three days of placing the order and implemented a monitoring program to ensure compliance. The results of the monitoring program prompted the department to draft a revised policy on food purchases effective April 4, 2007. This revised policy extends the timeline to issue a requisition from three to five days.

Recommendation 3.3: The department should obtain the necessary approvals from County Purchasing and/or the Board of Supervisors, as necessary to conduct sole source purchases to selected vendors for produce, bakery goods and/or meat services.

Current Status: **Fully Implemented.** The department issued guidelines for food purchasing in January 2006 which identified the existing contracts with the two main food suppliers and the buyer's responsibilities. Additionally, the guidelines detail procedures for food purchases where the County does not have an existing awarded contract and in conjunction with County Purchasing has establish quarterly blanket purchases orders for food items.

Capitalized Assets

Finding 4: Probation department did not maintain a current comprehensive list of capitalized assets, including the detailed description, serial number, location and the individual accountable for the asset. Records were not appropriately updated when capitalized assets were transferred in or out of the Probation Department's facilities.

Recommendation 4.1: Notify the Auditor-Controller's Office within 30 days of transferring assets to other departments or facilities, disposing of assets, additions of assets, location change of assets, etc.

Current Status: **Fully Implemented.** The department conducted a physical inventory of capital assets by location, during June 2006, reconciled the results with the Auditor-Controller and submitted the necessary paperwork to retire assets as necessary. However, since there were no additions or change of asset locations to be reviewed during our follow-up we could not ensure the department was in compliance with the reporting requirement.

Recommendation 4.2: Establish a method for monitoring the acquisition and disposal of all capitalized assets.

Current Status: **Fully Implemented.** The department established guidelines for reporting the acquisition, disposal and transfer of capital assets and reporting these actions to the Auditor-Controller's Office within 30 days. However, since there were no acquisition and disposal actions

to be reviewed during our follow-up we could not ensure the department was following the procedures.

Finding 5: The Probation Department did not perform an annual physical inventory count of capitalized fixed assets, as required by the County Internal Control Handbook (ICH) and generally accepted accounting principles (GAAP). In addition, the fixed asset report as of June 30, 2005, was certified under oath without being verified by means of a physical inventory.

Recommendation 5: Perform an annual physical inventory count of all capitalized assets as required by Standard Practice Manual III-E-2-1.1, Section III, H.

Current Status: **Fully Implemented.** The department conducted a physical inventory of capital assets by location, during June 2006, reconciled the results with the Auditor-Controller and submitted the necessary documents to retire assets as necessary.

We appreciate the cooperation and assistance extended to us by Probation Department's staff during this audit. Their assistance contributed significantly to the successful completion of the audit.

ROBERT E. BYRD, CGFM
Auditor-Controller



By: Michael G. Alexander, MBA, CIA
Chief Internal Auditor

cc: Board of Supervisors
County Counsel
Executive Office
Grand Jury

Alan M. Crogan
Chief Probation Officer

Craig Cass
Chief Deputy Probation Officer
Institutions

Rick Quinata
Chief Deputy Probation Officer
Special Services



Ed Vasquez
Chief Deputy Probation Officer
Field Services

Sally Beavan
Chief Deputy Probation Officer
Administration

Probation Department
County of Riverside

April 13, 2007

Mr. Michael G. Alexander
Division Chief
Internal Audits Division
Auditor-Controller's Office

Dear Mr. Alexander,

Thank you for allowing the Probation Department the opportunity to conduct a purchasing and accounting workshop. The workshop has given the department time to address the audit findings prior to submitting the status update report. Your presence and participation during the April 5, 2007 workshop is greatly appreciated and provided additional credibility concerning job expectations.

Attached is the department's audit report status update. The audit report has assisted the department in evaluating its current business practice. The department is committed in developing a new policy and guidelines manual to ensure adequate internal controls are in place.

Again, thank you for your continued support of the Probation Department.

If you have questions or need additional information, please contact Sally Beavan at (951) 955-9640 or Doug Moreno at 955-2872.

Sincerely,

A handwritten signature in black ink, appearing to read "Alan M. Crogan", is written over a horizontal line.

Alan M. Crogan
Chief Probation Officer

07 APR 13 PM 5:07
AUDITOR-CONTROLLER
COUNTY OF RIVERSIDE

Riverside County Probation Department



**Audit Report Status Update Issued
on January 12, 2006**

Audit Period July 1, 2003 to June 30, 2005

April 13, 2007

Riverside County Probation Department
Audit Report Status Update
April 13, 2007

On Thursday, April 5, 2007, the Probation Department conducted a Procurement and Accounting Workshop for administration and institution procurement and accounting personnel. The purpose of the workshop was as follows: review status of the January 2006 audit findings; review the existing purchasing, accounting, and fixed asset inventory guidelines; discuss the non-compliance purchasing/accounting activities since the implementation of guidelines in January 2006; and, establish new purchasing, accounting, and fixed assets inventory guidelines to ensure compliance with generally accepted accounting principles and County purchasing policy and guidelines.

In attendance at the workshop were the Probation Department accounting and procurement staff, members of the department's executive team, institution directors, and two members of the internal audit team (Michael Alexander, Division Chief and Russell Dominski, Principal Accountant).

The Probation Department audit encompassed a two year operating period from July 1, 2003 through June 30, 2005. During the audit the areas of internal control were reviewed to assess the Probation Department's processes and fiscal procedures. Based on the results of the audit, it was determined that the Probation Department had adequate controls in place over the payroll and cash handling processes. However, the Department had inadequate controls over the purchasing and capital asset processes and functions. The following update is provided:

Purchasing Process

Seventy-five cash disbursement transactions were randomly selected to test the department's controls and compliance with the County Purchasing policies. Based on the results of the testing, it was determined that there were areas of improvement needed in the purchasing process.

Audit Finding 1: "Based on the sample of seventy-five transactions, there were thirty-seven transactions where the Purchase Orders were dated after the receipt of goods or services and/or receipt of the vendor's invoice providing evidence that the purchases were not being approved prior the ordering of the goods or services."

Corrective Action Taken: As a result of this finding, the Probation Department immediately created and implemented a standardized Purchasing Authorization Form (PAF) for every purchase. The PAF's purpose is to document management approvals prior to the creation of purchase orders (PO's) and before the receipt of goods and services. The agreed upon exception is food orders, for which PO's are to be entered within three days of receiving the goods to insure correct pricing prior to payment. It has been identified that the agreed upon three days is not practical based upon both internal and external factors within the five 24/7 juvenile institutions.

Status: As part of the Probation Department's commitment to correcting this identified weakness in internal control, the Department implemented a monitoring and compliance log whereby all vouchers are reviewed prior to approval. The review criteria are as follows:

- The PO is dated on or before the invoice date (exception food purchases, the PO should be dated within 3 days of the invoice date),
- The PAF is dated prior to the invoice date,
- There are no missing approval signatures on the PAF and the PO,
- The PO and Receiver signatures are the same, and
- The packing slip is included.

Since July 1, 2006, the Probation Department continues to have occurrences of non-compliance with established guidelines. To date, there are 834 occurrences of non-compliance, out of 6,788 transactions processed. The 834 occurrences represent 12% of the year to date accounts payable transactions processed. After a year of implementation and compliance tracking, it has become apparent that the purchasing guidelines may have been too rigid for the five 24/7 juvenile institutions and the guidelines may have to be adjusted while ensuring adequate internal controls. The Department will be proposing changes to existing purchasing guidelines, particularly the purchase of food items. In addition, the level of approval is also being proposed as follows:

- No PAF required for purchases up to \$200 including sales tax, shipping and handling,
- Structuring the approval process for purchases as follows:
 - \$201 to \$2,500 – Supervising Probation Officer, Correctional Food Services Supervisor, House Manager (whereas before, purchases at this level were required to have the Director/Assistant Director approvals)
 - \$2,501 to \$10,000 – Division Director/Assistant Director
 - \$10,001 to \$50,000 – Chief Deputy
 - Over \$50,000 – Executive Team/Chief Probation Officer

Additionally, the Probation Department has condensed the existing three page chart of accounts to two pages and will be preparing a monthly monitoring compliance report for distribution to all Division Directors.

Segregation of Duties

Audit Finding 2: “During the audit process, it was noted that the Department lacked adequate segregation of duties. Based on the sample of seventy-five transactions, there were three instances where the person placing the order also verified the receipt of the goods or services and authorized the invoice for payment, and there were sixteen instances of payments to vendors being made without any form of documentation approving the order, the receipt, or the invoice.”

Corrective Action Taken: The Probation Department has understood the need for additional accounting and purchasing staff. During the fiscal year 2006/07 budget development, the department requested six new positions to address the audit findings. The new positions consisted of: three Accounting Technician I’s, one House Manager, and two Storekeepers. The Board of Supervisors approved the six new positions. Upon approval of the new positions, recruitment of these positions began. Attachment 1 shows when these positions were filled and which ones are still in background.

Status: Once fully staffed, the department will be in compliance with this audit finding. The department anticipates that transactions processed in fiscal year 2007/08 will show an adequate segregation of duties for purchasing, receipting, and payment.

County Contracts and Purchasing Policy

Audit Finding 3: "During the audit testing process, invoices were tested comparing the invoiced products to the existing County contracts and County Purchasing Policy. There were instances where the Department purchased and paid for items from one vendor, that were under contract with another vendor for a lesser price. Additionally, there were instances where the Department was charged more than the stated contract price for some items."

Corrective Action Taken: The Probation Department issued a Food Purchasing guideline in January 2006. The guideline identifies the existing contracts with two main food suppliers and the buyer's responsibilities. Additionally, the guideline details procedures for food purchases where the County does not have an existing awarded contract, i.e. produce.

Status: The Probation Department continues to note instances of non-compliance with existing County contractual agreements. Probation has been working closely with the Purchasing Department to clarify what items are included in County contracts, especially in the area of food purchases. Additionally, the Probation Department will be working with the Purchasing Department to establish quarterly blanket purchase orders for food items. With this new system the department will be in compliance with the audit finding.

Capitalized Asset Process

Audit Finding 4: "The Probation Department did not maintain a current comprehensive list of capitalized assets, including the detailed description, serial number, locations and the individual accountable for the asset. Records were not appropriately updated when capitalized assets were transferred in or out of the Department's facilities. There were instances where capitalized assets could not be located nor could the disposition be confirmed, assets identified did not match the description on the Capitalized Asset Listing report, and some assets had no County tags to match the capital asset listing."

Audit Finding 5: "The Probation Department did not perform an annual physical inventory count of capitalized fixed assets as required by the County Internal Control Handbook and Generally Accepted Accounting Principles."

Corrective Action Taken: The Probation Department has conducted a physical inventory by location as of June 2006, identifying the department's capital assets. Additionally, the Department has performed a reconciliation of items between the ACO's records and Probation's records and will be submitting paperwork to retire unidentified assets removing them from the ACO's listing.

Status: The Probation Department has complied with the audit recommendations by conducting a physical inventory of capital assets, performing a reconciliation of items between the ACO's and Probation's records, and submitting paperwork to retire unidentified assets removing them from the ACO's listing.

The Procurement and Accounting Workshop held on April 5, 2007 is the beginning of future meetings to address the audit findings, provide education and current information, and to ensure that the newly established policies and guidelines are implemented consistently throughout the department. The intent of the department is to develop a comprehensive manual illustrating all policies and guidelines.



What We Have Done

(New Institutions Support Staffing Status)

Attachment 1

Position Title	RJH	IJH	VHYC	SWJH	TPR
<u>Accounting Tech I</u> Duties: Responsibilities for P/R, A/P, Office Supplies, Petty Cash					
# of Positions	1	1	1	1	1
Status:	3/1/2007	3/1/2007	3/1/2007	3/1/2007	3/15/2007
<u>Senior Accounting Assistant</u> Duties:					
# of Positions	1	No Position	No Position	No Position	1
Status:	Vacant				Vacant
<u>Accounting Assistant II</u> Duties: Provide assistance to Account Tech I with P/R, A/P, and filing					
# of Positions	1	1	No Position	No Position	No Position
Status:	Vacant	Vacant			
<u>Accounting Assistant I</u> Positions to be deleted					
# of Positions	No Position	No Position	No Position	No Position	No Position
Status:					



What We Have Done

(New Institutions Support Staffing Status)

Attachment 1

Position Title	RJH	IJH	VHYC	SWJH	TPR
<u>Correctional Food Service Supervisor</u> Duties: Supervise the central kitchen food services program.					
# of Positions	1	1	No Position	1	No Position
Status	Filled	1/18/2007		Vacant 03/29/07	
<u>House Manager</u> Duties: Responsible for purchase orders, ordering supplies, materials and services.					
# of Positions	1	1	No Position	1	No Position
Status	2/15/2007	Vacant		Vacant	
<u>Storekeeper</u> Duties: Responsible for purchasing, receipting, storage and issuance of supplies, materials and equipment.					
# of Positions	1	No Position	1	No Position	2
Status	Background		Background		1 - Filled 1 - Background