

County of Yolo

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- *Internal Audit*

Transmittal Letter

March 14, 2023

Dan Fruchtenicht, Chief Probation Officer
Probation Department
Yolo County
725 Court Street
Woodland, CA 95695

Re: Internal Control Cash Audit for the Probation Department

Dear Chief Fruchtenicht:

The Division of Internal Audit performed an internal control cash audit of the Probation Department for the period of October 1, 2021 to September 30, 2022 to determine whether adequate internal control exists to provide reasonable assurance to county management that there is an acceptable level of operational accountability over cash.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, reliable, relevant and useful information to provide reasonable assurance that our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and non-financial information. Management is responsible for establishing and maintaining adequate internal controls. Our responsibility is to evaluate the internal controls.

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to petty cash and bus pass/gift card inventory.

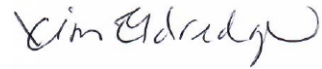
As required, in accordance with auditing standards and the County Audit Follow-up Policy, county management has responded to each finding and recommendation contained in our report. We will follow-up to verify that management implemented the corrective actions.

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In regard to auditor's independence, the Internal Audit Division reports administratively to the Chief Financial Officer, but functionally to the Board of Supervisors.

We thank the Probation management and staff for their cooperation; their assistance contributed significantly to the successful completion of this audit.

Sincerely,



Kim Eldredge, CGAP
Audit Manager

Distribution

Chad Rinde, Chief Financial Officer
Gerardo Pinedo, Yolo County Administrator
Sou Xiong, Treasury Manager
Yolo County Audit Subcommittee
Internal Audit Website
Audit File Project No. 2023-31

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Audit No: 2023-31

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Detailed Findings and Recommendations

Background

The Probation Department fosters behavioral change to ensure public safety. The Chief Probation Officer is responsible for administering and managing the department. There are three divisions within the Probation Department: Administration; Probation Services; and Juvenile Detention Facility, Alternative Sentencing Program, and Transportation Program.

Administration: Responsible for the administration of the department and for overseeing all operations including probation and detention services, budgeting and fiscal operations, strategic planning, human resources, facilities, information technology management, and clerical services.

Probation Services: Provides general management direction and control of all probation services functions within the department. Probation Services consists of the following units: Adult and Juvenile Court Services, Adult and Juvenile Field Services, Pre-Trial Services, and all other probation services.

Juvenile Detention Facility, Alternative Sentencing Program, and Transportation Program: The Juvenile Detention Facility consists of custody services, enhanced education services, and services for individual special needs of detained minors. The Alternative Sentencing Program provides community work for individuals in-lieu of custody in the county jail, or fines as set by the Superior Court. The Transportation Program provides supervised transportation of both adult and juvenile offenders as required by the court and assists in offenders attending treatment, placement, and court appearances.

Our review tested the Probation Department's cash operations to determine that controls are operating in accordance with the Yolo County Cash Accounting Manual, Government Code, and best practice.

Objective, Scope, and Methodology:

The objective of the review was to determine whether adequate internal control exists to provide reasonable assurance to county management that there is an acceptable level of operational accountability over the handling of cash within the Probation Department. Operational accountability is achieved when the cash operations operate effectively and efficiently, transactions are executed in accordance with laws, regulations and Board policies and reliable information is generated and reported.

The scope of our audit included the review of the revolving cash funds and cash equivalents for the period of October 1, 2021 to September 30, 2022.

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I. Revolving Cash Fund Accounts

Revolving funds are established by the Department of Financial Services for specific operational needs to facilitate certain expenditure and cash transactions throughout the county departments. The most common types of revolving funds are change funds, petty cash funds, and special purpose funds.

The Probation Department has an authorized petty cash fund in the amount of \$500 for haircuts of minors under the Federal Office of Refugee Resettlement program (ORR) and to reimburse for small dollar items.

Audit Objective/Methodology

To determine whether the revolving fund accounts agreed to the authorized accountable balance, handling of cash disbursements comply with county policy, and funds are adequately safeguarded.

To accomplish our objective, the following procedures were performed:

- Reviewed cash on-hand and agreed to the authorized accountable revolving cash fund balance on file with the Department of Financial Services
- Inquired with management and staff on the petty cash procedures
- Reviewed the annual revolving fund report to obtain an understanding of the type of petty cash replenishments made
- Observed that the funds were properly safeguarded

Finding #1: Establishment of the petty cash fund

Department heads may request the establishment of a revolving fund in writing to the Chief Financial Officer. The request shall state the purpose of the fund, the amount and the custodian of the fund. If the request is granted, the Chief Financial Officer will respond with an approval letter establishing the fund, describing the authorized use of the fund and specifying the custodian.

The Probation Department re-established the petty cash fund as a special purpose fund for use of cash advances to buy meals and incentives for youth probation clients without the approval from the Chief Financial Officer.

Cash funds re-established without proper authorization may result in the improper use of the fund as in accordance with county policy.

Recommendation 1:

We recommend that the Probation Department formally request in writing to the Chief Financial Officer the approval to re-establish the petty cash fund to a special purpose fund for cash advances to buy meals and incentives for youth probation clients. (Priority 1 Issue – 60 days required corrective action)

Management Response 1:

Probation has sent a memo to the Department of Financial Services to re-establish the petty cash fund to a special purpose fund for cash advances to buy meals and incentives for youth clients. (Anticipated Date of completion – March 8, 2023)

Finding #2: Accountability over petty cash transactions

The purpose for a petty cash fund is to reimburse small dollar miscellaneous items purchased for the department. The petty cash custodian must obtain an original sales receipt prior to reimbursing for payment. A control log should be used to record disbursements.

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Yolo County Criteria for Allowing Charges Against County Funds Policy: The following criteria must be met in order to allow charges against county funds:

- *Transaction is related to county business*
- *Transaction is in compliance with laws and county operations*
- *Transaction is reasonable to an average prudent person*
- *Transaction is supported by corroborative information and documentation*
- *Transaction was approved by authorized County officials or personnel*

Internal Revenue Service (IRS): Amounts paid to an individual, partnership, or in some cases a corporation for services in the course of trade or business (including government agencies and nonprofit organizations) over \$600 during the year must be included on a Form 1099.

The auditors reviewed the Probation Department's annual revolving fund report for fiscal year 2021-22 and inquired with staff on the replenishments made out of the petty cash fund. The following was noted:

- Sales receipts were missing for cash advances to purchase food and items for clients.
- Payments made to barbers for haircuts of minors were not submitted to the Department of Financial Services for 1099 reporting purposes.
- Unallowable gratuities of \$5.00 were paid to the barbers for each haircut.

Not maintaining accountability over petty cash transactions increases the risk of improper charges against county funds and/or duplicate payments. Not tracking cash payments made to vendors may result in penalties levied by the IRS against the county and/or the Probation Department if the amounts exceed \$600 during the year.

Recommendation 2:

We recommend that the Probation Department develop a process to ensure that all petty cash reimbursements are supported by sufficient documentation to support the charges against county funds. It is also recommended that the department report the payments made to the barbers to the Department of Financial Services for 1099 reporting purposes. (Priority 1 Issue – 60 days required corrective action)

Management Response 2:

Probation will develop a process to ensure all petty cash reimbursements are supported by sufficient documentation to support charges against county funds. Payments made to barbers will also be reported to the Department of Financial Services for 1099 reporting purposes. (Anticipated Date of Completion – April 22, 2023)

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II. Other Cash Funds and Cash Equivalents

Cash equivalents; such as, gift certificates, gift cards, and bus passes may be acquired for use in grant funded or county programs. Approval and purpose of such acquisition must be on file. Departments are required to maintain an inventory for the cash equivalents showing the purchase date, card number, vendor name, amount and expiration (if applicable). Issuance of the inventory items must be documented and recipients must sign a receipt that the item was received. Total amount per recipient over \$600 within a calendar year must be reported to the Department of Financial Services.

The Probation Department maintains an inventory of gift cards and bus passes to be provided to clients to support positive behavioral outcomes for both, juvenile and adult probation clients. Gift cards are used as incentives for the completion of programs. Bus passes are used to provide transportation to attend appointments with probation officers.

Audit Objective/Methodology

To determine that the bus passes and gift cards are maintained, documented, and agree to the department's records and that the client signed a receipt for possession of the bus pass or gift card.

To accomplish our objective, the following procedures were performed:

- Conducted a count of the bus passes and gift cards on-hand and traced to the inventory logs
- Determined that the inventory was properly recorded in the general ledger
- Tested a sample of disbursements to determine compliance with county policy and procedures

Finding #3: Accountability over bus passes and gift cards

Departments are ultimately responsible for the safekeeping of inventory they purchase. Purchases of inventory are charged to the asset inventory account and credited from inventory when used. The inventory account should reflect the "book balance" of inventory on-hand. Physical inventory counts should be taken periodically by someone independent of the purchasing and custody of inventory. Missing items should be investigated and analyzed for possible control deficiencies.

The bus pass and gift card inventory is maintained by the Fiscal Administration division. Bus passes and gift cards are distributed to the probation officers upon request. During the audit period, the Probation Department had 70 gift cards with a value of \$1,846 and 139 bus passes totaling \$715 in inventory. The auditor reviewed the internal controls over the handling of bus passes and gift cards and noted the following exceptions:

- Bus passes purchased in September 2016 totaling \$215 are still outstanding and not recorded in the general ledger.
- Out of 43 bus passes distributed, twenty-six (26) bus passes in the month of August 2022 were missing client signatures for acknowledgement of receipt of the bus pass.
- Gift cards purchased between fiscal years 2014-15 and 2017-18 totaling \$1,300 are still outstanding to Southwest, In-N-Out, Dutch Brothers, and Walmart and not recorded in the general ledger.
- Two (2) gift cards distributed in the month of August 2022 were missing client signatures for acknowledgement of receipt of the gift card.

Not maintaining accountability over the bus passes and gift cards distributions may result in incomplete and inadequate supporting documentation and inventory records. Bus passes and gift cards held as inventory and not redeemed within a year may result in a loss of value and increases the risk of potential tracking errors and/or misappropriation of bus passes and gift cards.

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Recommendation 3:

We recommend that the Probation Department obtain a copy of the signature acknowledgement at the time of receipt by the client for each bus pass and gift card for audit purposes. In addition, the bus passes and gift cards purchased prior to fiscal year 2017-18 should be reviewed to determine if they are deemed necessary for program operations or should be returned for full value. The bus passes and gift cards should also be recorded in the general ledger to reflect the actual inventory on-hand in the financial records. (Priority 1 Issue – 60 days required corrective action)

Management Response 3:

Probation will rescind procedure changes that were made at the height of the COVID-19 pandemic and revert to standard procedures where clients sign for receipt of incentive (bus/gift cards).

Gift cards purchased in prior fiscal years are non-refundable and were purchased with grant funds. Probation remains committed to utilizing those gift cards first, provided the requirements of the funds that purchased said gift cards are adhered to.

Probation agrees to work with the Department of Financial Services to enter non-inventoried gift cards into the inventory. (Anticipated Date of Completion – April 22, 2023)

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III. Priority Ranking Definitions

Auditors use their professional judgment to assign rankings to recommendations using the criteria and definitions listed below. The purpose of the rankings is to highlight the relative importance of some recommendations over others based on the likelihood of adverse impacts if a corrective action is not taken and the seriousness of the adverse impact that may result. Adverse impacts are situations that have or could potentially undermine or hinder the following:

- a. The quality of services department provides to the community;
- b. The accuracy and completeness of County books, records, or report;
- c. The safeguarding of County asset;
- d. The County's compliance with pertinent rules, regulations, or laws;
- e. The achievement of critical programmatic objectives or program outcomes; and/or,
- f. The cost-effective and efficient use of resources.

Priority 1 Issues

Priority 1 issues are control weaknesses or compliance lapses that are significant enough to warrant immediate corrective action. Priority 1 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category may be situations that create actual or potential hindrances to the department's ability to provide quality services to the community, and/or present significant financial, reputational, business, compliance, or safety exposures. Priority 1 recommendations require management's immediate attention and corrective action within 60 days of report issuance.

Priority 2 Issues

Priority 2 issues are control weaknesses or compliance lapses that are of a serious nature and warrant prompt corrective action. Priority 2 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category, if not corrected, typically present increasing exposure to financial losses and missed business objectives. Priority 2 recommendations require management's prompt attention and corrective action within 120 days of report issuance.

Priority 3 Issues

Priority 3 issues are the more common and routine control weaknesses or compliance lapses that warrant timely corrective action. Priority 3 recommendations may result from weaknesses in the design or absence of a procedure or control, or when personnel fail to adhere to the procedure or control. The issues, while less serious than a higher-level category, are nevertheless important to the integrity of the department's operations and must be corrected or more serious exposures could result. Departments must implement Priority 3 recommendations within 180 days of report issuance.