

County of Solano
Office of the Auditor-Controller



**Internal Control Review of the District Attorney
Bad Check and Court-Ordered Restitution Programs
As of June 30, 2011**

February 1, 2012

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INTRODUCTION

In accordance with the Fiscal Year 2011/12 Audit Plan for the Internal Audit Division, we conducted an internal control review of the Solano County District Attorney's Bad Check and Court-Ordered Restitution Programs.

BACKGROUND

The District Attorney (DA) in accordance with California Penal Code Section 1001.60 administers the Bad Check Restitution Program. The Program requires bad check writers to pay full restitution and complete a special education course and intervention class regarding their personal accountability and financial responsibility as citizens. The cost of the Program is completely funded by the offenders. The ultimate goal of the Program is to ensure that fewer bad checks are issued.

In administering the Program, the DA acts in a fiduciary capacity where by payments made by the offenders are collected and disbursed to the respective victim or victims. All bad check restitution payments from offenders and disbursements to victims are maintained in a specific account in the Public Safety Fund within the County's Integrated Financial Accounting System (IFAS). All fees assessed by the DA are deposited into the Bad Check Program budget unit. These fees (administrative, class, late and payment plan fees) are used to support the overall operations of the Program.

The DA utilizes a vendor-supported software system, BounceBack (BB), to administer the Program. Program staff enters payments from offenders into the BB system. All payments received are then distributed to the victims. The restitution checks are issued on a separate check series to distinguish them from other County warrants and are mailed to the victims. A warrant issue summary and check register are submitted to Auditor-Controller's Office for entry as Series 5 checks in IFAS.

The DA in accordance with California Penal Code Section 1202.4 administers the Court-Ordered Victim Restitution Program. In every case in which a victim has suffered economic loss as a result of the defendant's conduct, the court shall require that the defendant make restitution to the victim or victims in an amount established by court order, based on the amount of loss claimed by the victim or victims. The intent is that a victim of a crime that incurs economic losses as a result of a crime should receive restitution directly from a defendant convicted of that crime.

California Penal Code section 1203.1(l) allows the collecting agency (DA) to add a fee not to exceed 15% of the total amount to be paid to cover administrative costs of the program. The County BOS approved Resolution 2010-173 to authorize the DA to charge a fee not to exceed 15%.

The restitution monies received are deposited into a specific account in the Public Safety Fund and administration fees are deposited into the Criminal Bureau budget unit. The DA follows the ACO's policies for vendor payments in making disbursements to victims in this program. The vendor for the purposes of the claim is the victim. The ACO uses Series 2 checks and payment is mailed to the victims.

OBJECTIVE

The objective of our review was to determine if the internal controls are adequate to ensure proper accountability of Bad Check Restitution and Court-Ordered Victim Restitution funds collected and disbursed and the sufficiency of the reconciliation processes for these programs.

SCOPE & METHODOLOGY

The scope of our review was limited to the internal controls, policies and procedures, processes, and systems in place as of June 30, 2011. Our methodology included inquiry of management and department staff, and an examination of relevant systems and documents. Our review was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

In any system of internal controls inherent limitations exist which may result in errors or irregularities occurring and not being detected. Limitations may include, but are not limited to, resource constraints, management override, and circumvention of internal controls by collusion. Further, projection of any evaluation of the internal controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies and procedures. Accordingly, our review would not necessarily disclose all weaknesses in the operating procedures, accounting practices and compliance with County policy.

CONCLUSION

Our review identified the following findings and recommendations in the internal controls of the Bad Check Restitution and Court-Ordered Victim Restitution programs:

1. Improper segregation of duties.
2. Improper controls over collections in transit from Vallejo office.
3. Deposit of collections is not made timely.
4. Disbursement of funds is not made timely.
5. Account reconciliations are insufficient.
6. Documentation of collections is inconsistent.
7. Record keeping for Court-Ordered restitution is incomplete and confusing.
8. Incorrect classification of administration fees.

The following pages provide a detailed description of the findings and the related recommendations. These recommendations will assist the Solano County District Attorney's Bad Check and Court-Ordered Restitution Programs to improve internal control for the accountability over restitution programs.

The District Attorney's response to the recommendations and a brief summary of the plan for corrective action is included in the accompanying schedule of findings and recommendations. The responses are the opinion of management and have not been subject to audit procedures for verification by the Auditor-Controller. All findings and recommendations are subject to the Auditor-controller's follow-up process.

**Internal Control Review of the District Attorney
Bad Check and Court-Ordered Restitution Programs as of June 30, 2011
FINDINGS & RECOMMENDATIONS**

1. Segregation of duties

Condition:

Segregation of duties is inadequate in both the Bad Check and Court-Ordered Restitution programs. In the Bad Check program, one individual receives collections, prepares deposit permit, deposits collections, reconciles cash, and enters transactions into BounceBack program. In the Court-Ordered Restitution program, one individual not only handles collections and deposits but also completes vendor claims for payments.

Criteria:

Segregation of duties requires no one employee should be able to receive, record, and reconcile cash deposits. Having different employees perform these tasks minimizes the potential for theft.

Cause:

The DA's office has a limited number of staff to perform these duties.

Effect:

Improper segregation of duties increases potential for loss or theft of collections as well as errors and irregularities occurring and not being detected.

Recommendations:

- A. Review all staff duties and segregate conflicting duties to minimize risk.
- B. Where segregation is not possible due to staffing limitations establish secondary independent review requirements to mitigate the control weakness.

Management Response:

The District Attorney agrees with the Auditor and has already completed corrective action. The Department identified the need for more staff and a further segregation of duties within the programs.

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FINDINGS & RECOMMENDATIONS, Continued**

2. Cash controls

Condition:

There is no transfer of accountability established for cash and checks collected at the Vallejo DA office and transported to the Fairfield DA office. Vallejo collections are put in a lockable bag and given to an investigator who delivers the bag to the Fairfield office. At no point is the contents verified or receipted by signature.

Criteria:

Proper cash handling procedures require accountability controls to prevent the mishandling of funds and to safeguard against loss. These controls also protect employees from charges of mishandling or misappropriation of funds.

Cause:

The DA lacks policy and training of employees on appropriate cash handling procedures for transfer and accountability of collections between facilities.

Effect:

Improper cash controls increase the potential for loss or misappropriation of funds.

Recommendations:

- A. Establish policies and procedures for controls over cash and checks during transport between facilities. At a minimum, require verification of contents of lockable cash bag and document by signature upon pickup at the Vallejo office and again upon drop-off at the Fairfield office. Signature logs should be maintained at both locations to verify procedure.
- B. Consider alternative procedure whereby Vallejo DA office deposits collections directly to the bank in Vallejo and transmits only the supporting documents to Fairfield DA office. Work with County Treasury on alternate deposit procedures.

Management Response:

The Department agrees with the Auditor's findings and has already completed corrective action. The Department implemented its new Policies and Procedures on July 1, 2011.

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FINDINGS & RECOMMENDATIONS, Continued**

3. Timely deposit of collections

Condition:

The DA's office does not make daily deposits when funds collected exceed \$500. Collections are regularly held for a week or more before being deposited. Collections are maintained in a safe near the Investigative Assistants for the Bad Check Program and in a safe near the Accounting Technician for the Court-Ordered Restitution Program. The average amounts held for deposit were \$6,100 and \$3,800 for the Bad Check Program and Court-Ordered Restitution Program respectively. Additionally, DA staff does not tally daily collections or deposit collections intact as required by County Code.

Criteria:

Solano County Code section 11-13 (d) requires cash collections be totaled daily by type (cash or checks) and identified as receipted or not. Collections that exceed \$500 are expected to be deposited daily unless approved in writing by the Auditor-Controller to ensure timely posting to account.

Cause:

The DA staff was unaware of County code requirements and held deposits until such time that staff were available to make the deposits to the Treasury.

Effect:

Collections are not being properly identified and totaled daily for accurate recording and management of transactions. Collections are held for extended periods of time prior to deposit exposing the collections to increased potential for loss or misappropriation.

Recommendations:

- A. Update cash collection procedures to include totaling daily collections and segregating them by type. Daily receipts should be bound with tape total and properly secured awaiting deposit. Daily collections should be deposited intact.
- B. Deposit all collections daily when they exceed \$500. In lieu of that requirement, submit to the Auditor-Controller a request to maintain cash collections in excess of \$500. Ensure that collections are deposited a minimum of twice per week based on staff availability.

Management Response:

The Department agrees with the Auditor's findings and has already completed corrective action. The Department implemented its new Policies and Procedures on July 1, 2011. The department is now running daily tapes and attaching to the daily receipts. Although the department no longer accepts cash, except in unusual circumstances, it segregates the collections by type. Due to staffing problems and the location of the Vallejo Office, the department has requested permission for the Auditor's Office to make deposits twice a week.

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FINDINGS & RECOMMENDATIONS, Continued**

4. Timeliness of disbursements

Condition:

Disbursements of collections in the Court-Ordered Restitution program are not made timely. In two of the six collection/disbursement transactions tested, the disbursement of funds to claimants occurred more than three weeks after collection and deposit of monies.

Criteria:

As an agent for the victims, the DA has a fiduciary responsibility to disburse restitution funds to the claimant as soon as possible after collection.

Cause:

The DA staff has no standard time requirement for distribution of restitution monies. Restitution claims are done when time allows.

Effect:

Claimants wait an extended time to receive restitution payments.

Recommendation:

- A. Establish a regular weekly scheduled day/time for the disbursement of restitution payments.

Management Response:

The Department disagrees with the Auditor's findings; however it does agree to implement a twice-a-month distribution schedule. As an agent for the victims the DA has a fiduciary responsibility to disburse restitution funds to the victims. In that capacity the DA is forced to wait until the Courts Order restitution to said victims. Unlike the Bad Check Program where a set dollar amount and a set victim is readily available when the case is filed, the Court Restitution Program is reliant on the Courts and the Deputy District Attorneys to indicate who and how much each victim will receive. That order may not be received until sometime after the defendant actually brings in restitution. The defendant then may show the court that he has made payment to the DA. The Court eventually will order the victim restitution. This process may cause a delay from the time the office receives the funds and the time in which the DA may actually distribute to the victims pursuant to Court Order. A three week delay is not unreasonable. The Department would be willing to set up a schedule to make distributions in those cases in which the Court has ordered restitution on the second and last Friday of every month.

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FINDINGS & RECOMMENDATIONS, Continued**

5. Account reconciliations

Condition:

Reconciliations of restitution accounts are not sufficient. They do not provide required explanations of variances, including prior year balance forward, and are performed at irregular intervals. Excel spreadsheets of individual claimant records are maintained separate from the BounceBack program but also contained unexplained variances. There is no reconciliation of BounceBack to IFAS. Aging of accounts is not performed resulting in undisbursed funds accumulating in IFAS for extended time.

Criteria:

IFAS account reconciliations should identify and provide explanation for all variances between total receipts and total disbursements as well as prior year balance forward. Reconciliations should also be completed between IFAS and BounceBack to ensure agreement between the general and subsidiary ledgers. Reconciliations should be completed monthly to ensure accurate accountability and management of funds. An aging of accounts should be performed to ensure that undisbursed funds are properly disposed after specified time limits.

Cause:

DA staff is not trained in the proper reconciliation practices and techniques and current procedures do not require monthly reconciliations or aging of accounts be performed.

Effect:

Incorrect disbursements to claimants could occur or collections could fail to be disbursed at all. Funds that have been on account and not disbursed for a predetermined period (such as 90 days) must be identified and properly disposed.

Recommendations:

- A. Perform monthly reconciliations of restitution accounts, 900/9000515 and 900/9000516, and require the DA Sr. Staff Analyst to review the reconciliation to ensure all account variances are adequately understood, documented, and resolved timely. Reconcile BounceBack to IFAS accounts to ensure agreement between the programs being used as a subsidiary ledger to the IFAS general ledger accounts.
- B. Produce detailed list of aged claims; i.e. funds not disbursed for 90 days or more, and take action to dispose.

Management Response:

The department agrees with the Auditor's findings and has already completed corrective action. This administration noted that over the course of this program there had rarely, if ever, been reconciliations of these accounts. This discovery initiated the department's own internal review. The policies and procedures implemented on July 1, 2011 address this issue.

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FINDINGS & RECOMMENDATIONS, Continued**

6. Documentation of cash collections

Condition:

The current method of documenting cash collections is inconsistent. Methods include:

- Bad Check collections made at the counter are receipted and a copy of the receipt is placed with the collection and is maintained with the deposit permit.
- Bad Check collections that come in the mail are logged but not receipted. No record of these non-receipted collections is maintained with the deposit permit therefore providing no effective method of deposit support. Log entries are haphazard, difficult to trace, and occasionally do not match deposit permit.
- Court-Ordered collections are all receipted. However, the Restitution Specialist sends a copy of the receipt to the payee for mailed-in collections while the Accounting Tech does not.

Some collections/deposits could not be traced to collection records. In testing bad check program collections, 6 of 570 (1%) collections could not be traced to a receipt or collections log book entry. In one of the six exceptions the log book and cash receipts journal did not match. In testing court-ordered collections, 3 of 73 (4%) collections could not be traced to a receipt.

Criteria:

DA procedures require all collections received at the DA window be receipted and a copy of the receipt kept with the collection until deposited at which point the receipt is filed with the deposit permit. Bad check collections received in the mail are recorded in a log book. All court-ordered collections are receipted.

Cause:

DA procedures do not provide standard documentation requirements for receipt and recording of collections leading to an assortment of methods and errors.

Effect:

Receipts were lost, misplaced, or never completed. Accountability over collections does not provide assurance that all collections were properly deposited and recorded.

Recommendation:

- A. Standardize procedures and improve documentation of collections, especially for non-receipted collections to ensure all are accurately accounted and properly support deposit transactions.

Management Response:

The District Attorney agrees with the Auditor and has already completed corrective action. The Department implemented the policies and procedures on July 1, 2011

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FINDINGS & RECOMMENDATIONS, Continued**

7. Court-Ordered Restitution Program Management

Condition:

Accounting records for the Court-Ordered Restitution program are incomplete and confusing. DA staff relies on multiple sources including:

- DA file notes are difficult to read and interpret.
- Excel spreadsheets are used to track individual claim receipts and disbursements.
- Individual file folders are not organized and do not provide an overall status of the cases.
- Court-Ordered Restitution Database (CORD) has not been fully implemented and is used for some cases but not all.
- IFAS records of deposits, disbursements, and fees that are not properly reconciled.

Due to this diverse assortment of records the current status of Court-Ordered Restitution accounts is not readily available.

Criteria:

Program accounting records should be organized, complete, and thorough. A status of all active accounts, total due including fees, and all collections received and disbursed should be easily attainable.

Cause:

The DA has not established standardized methods and forms for the management of the program. Additionally, the DA has started but is not using the Court-Ordered Restitution Database to track and monitor status of all cases.

Effect:

Current status of the Court-Ordered Restitution program is unattainable. Management of the program is tedious, time-consuming, with a high potential for error.

Recommendations:

- A. Establish standard forms and procedures for the overall management of the Court-Ordered Restitution program to ensure clear, consistent, and accurate records of all cases.
- B. Implement the full use of the CORD module for the management of the court-ordered restitution program. Work with BounceBack technical reps to develop recording and reporting requirements for proper program management.

Management Response:

The District Attorney agrees with the Auditor and has already completed corrective action. The Department has implemented policies and procedures as of July 1, 2011. A new Restitution Status Sheet will be added to all Court Ordered Restitution files.

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FINDINGS & RECOMMENDATIONS, Continued**

Management Exit Issue

8. Reclassification of admin fees for Court-Ordered Restitution

Condition:

Multiple transactions posted to Criminal Bureau budget unit for DA administration fees were reclassified from other accounts. In total 50% of all posted transactions for the year were reclassifications.

Criteria:

Fees collected for services should be posted to the applicable account when deposited.

Cause:

There is no standard procedure for the handling of DA administration fees. DA fees are the last item to be paid and are not always apparent when taking and recording collections.

Effect:

Fees are not being recorded timely. Fees that are applied to the incorrect account may not be identified until discovered by a reconciliation months later or not identified at all resulting in understated revenues.

Recommendations:

- A. Establish procedures for the collection and deposit of court-ordered restitution funds that properly identify the collection of DA admin fees and ensures the deposit of those fees in the applicable account when received.
- B. Alternatively, deposit all collections to the Public Safety Fund account as is the practice with the Bad Check program and journal administrative fees to the Criminal Bureau budget unit on a monthly basis.

Management Response:

The District Attorney agrees with the Auditor and has already completed corrective action. The District Attorney implemented policies and procedures on July 1, 2011