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Internal Audit Department

ORANGE COUNTY
6th Largest County in the USA

FINAL CLOSE-OUT

SECOND AND FINAL FOLLOW-UP INTERNAL CONTROL AUDIT:

PROBATION DEPARTMENT

GPS ELECTRONIC MONITORING PROGRAMS

AS OF MAY 15, 2013

Our Second Follow-Up Audit found that the Probation Department fully implemented the six (6) recommendations remaining from our original audit containing eight (8) recommendations. Previously, two (2) recommendations were implemented in our First Follow-Up Audit report dated August 29, 2012. Because all recommendations were implemented, the original audit is closed for follow-up purposes.

The Probation Department has two types of GPS Electronic Monitoring Programs in place: Supervised Electronic Confinement (SEC)/Home Detention Program that is administered by a contractor, and Continuous Electronic Monitoring (CEM) Program internally administered by the Probation Department.

AUDIT NO: 1228-G
ORIGINAL AUDIT NO. 1127

REPORT DATE: MAY 23, 2013

Director: Dr. Peter Hughes, MBA, CPA, CIA
Senior Audit Manager: Michael Goodwin, CPA, CIA
Senior Internal Auditor: Abdul Khan, CPA, CIA

RISK BASED AUDITING
GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010

Member of AICPA
American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management

2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays

2008 Association of Local Government Auditors' Bronze Website Award

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

Independence Objectivity Integrity

ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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Letter from Dr. Peter Hughes, CPA

Transmittal Letter

Audit No. 1228-G **May 23, 2013**

TO: Steven J. Sentman, Chief Probation Officer
Probation Department

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

SUBJECT: Second and Final Close-Out Follow-Up: Internal Control Audit of Probation Department GPS Electronic Monitoring Programs, Original Audit No. 1127 Issued March 7, 2012

We have completed a Second and Final Follow-Up Audit of Probation Department GPS Electronic Monitoring Programs. Our audit was limited to reviewing, as of May 15, 2013, actions taken to implement the **six (6) recommendations** remaining from our First Follow-Up Audit report dated August 29, 2012. We conducted this Second Follow-Up Audit in accordance with the *FY 12-13 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our Second Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Our Second Follow-Up Audit found that the Probation Department **fully implemented the six (6) recommendations** from the original audit. Previously, two (2) recommendations were implemented in our First Follow-Up Audit. As such, this report represents the **final close-out of the original audit**.

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

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

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OC Internal Auditor's Report

Audit No. 1228-G **May 23, 2013**

TO: Steven J. Sentman, Chief Probation Officer
Probation Department

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

SUBJECT: Second and Final Close-Out Follow-Up: Internal Control Audit of Probation Department GPS Electronic Monitoring Programs, Original Audit No. 1127 Issued March 7, 2012

Scope of Audit

We have completed a Second and Final Close-Out Follow-Up Audit of Probation Department GPS Electronic Monitoring Programs. Our audit was limited to reviewing actions taken, as of May 15, 2013, to implement the **six (6) recommendations** remaining from our First Follow-Up Audit report dated August 29, 2012.

Background

Our original audit evaluated internal controls over billings, payments, and contract administration in the GPS Electronic Monitoring Programs, and compliance with County and Probation policy and procedures, and adherence to contractual requirements. Probation has two types of GPS Electronic Monitoring Programs in place: Supervised Electronic Confinement (SEC)/Home Detention Program, and Continuous Electronic Monitoring (CEM) Program. Probation uses a contractor to provide SEC/Home Detention services. The CEM Program is administered by the Probation Department.

Based on our original audit, we found controls and processes for the CEM Program to be adequate and effective. However, controls over the contracted SEC/Home Detention Program needed improvement, specifically in the areas of billing and contract administration. The original audit identified **six (6) Significant Control Weaknesses** and **two (2) Control Findings** to improve controls and processes over administration of the SEC/Home Detention Program. In our First Follow-Up Audit, two (2) recommendations were implemented.

Results

Our Second Follow-Up Audit indicated that Probation **implemented the six (6) recommendations** remaining from our First Follow-Up Audit. As such, we consider the original audit closed for follow-up purposes. The following is the implementation status of the eight (8) original recommendations:

1. **Billing of SEC Program Fees** **(Significant Control Weakness)**
   Probation Department ensure accurate determination of the monthly fee billed to Sentinel and make adjustments to retrieve any additional money owed to the County for previous years of the contract.

   Current Status: **Implemented (First Follow-Up Audit)**. Probation reviewed the non-refundable monthly fee amount and adjusted them to reflect Probation's actual employee salaries, benefits, services and supplies for providing SEC services. The new non-refundable monthly fees were assessed beginning in February 2012. We noted that Probation used appropriate billing rates per the contract for the monthly fee billed to Sentinel between March and July, 2012.

Because Probation took corrective action to review and adjust the non-refundable monthly fees, processed accurate billings subsequent to February 2012, and obtained the outstanding balance due from Sentinel, we consider this recommendation implemented.

Note: The Sentinel Agreement was renewed on May 22, 2012 and became effective July 1, 2012, renewable for four additional one-year periods. One of the changes in the new Agreement was to modify the billing of the monthly fee from the average number of daily participants, to a percentage (38%) of Sentinel's monthly gross receipts resulting from the Agreement. Although we consider this recommendation implemented, we will examine the new billing process in our Second Follow-Up Audit to be performed about six months from the date of this report. (See **Finding No. 3** below)

2. **Determination of Program Costs** **(Significant Control Weakness)**
Probation Department periodically evaluate its costs and staffing needs to administer the SEC/Home Detention Program and make any adjustments to the contract with Sentinel for the non-refundable monthly fee to cover its program costs. This evaluation should determine if all applicable Probation personnel are included in the cost-recovery analysis.

Current Status: **Implemented (First Follow-Up Audit).** Probation evaluated its costs and staffing to administer the SEC/Home Detention Program and adjusted the non-refundable monthly fees to reflect changes to County employee salaries, benefits, services or supplies. The new non-refundable monthly fees were assessed beginning in February 2012.

Probation renewed the Sentinel Agreement in May 2012. Effective July 1, 2012, monthly fees are based on a percentage of gross receipts received by the contractor. The new Agreement also contains the same provision whereby Probation shall conduct at the end of each year a review of actual costs to operate the SEC program, with any difference being refunded to, or paid by the County. Because Probation evaluated its costs and staffing needs to administer the SEC/Home Detention Program and made adjustments with Sentinel for the non-refundable monthly fee to cover SEC program costs, we consider this recommendation implemented.

3. **SEC Program Fees Not Received Timely** **(Significant Control Weakness)**
Probation Department ensure Sentinel submits the monthly non-refundable fee payment in a timely manner. If Sentinel is not compliant, Probation should consider assessing liquidating damages on Sentinel as allowable per the terms in the Agreement.

Current Status: **Implemented (Second Follow-Up Audit).** Effective with the renewed Sentinel contract, Probation modified its billing of the monthly non-refundable fee. Sentinel now pays Probation 38% of its monthly gross revenues to Probation. In the event of non-compliance or late payments, Probation can assess late fees (one and a half percent of the payment plus $100).

We tested nine months of billings to determine if the fee payments were made in compliance with contract terms and received timely. The fees were based on 38% of Sentinel's monthly gross receipts as required in the new contract. We noted two instances when the payments were received after the due date, and Probation correctly assessed and received late fees. Because Probation took measures to establish and implement policy and procedures concerning timely payment of the monthly non-refundable fees, we consider this recommendation implemented.

4. **Responsibility for Receipt and Review of Monthly Contractor Statements Not Clearly Defined** **(Significant Control Weakness)**
Probation Department define responsibility for receiving and reviewing the monthly statements provided by Sentinel.

Current Status: **Implemented (Second Follow-Up Audit).** In conjunction with the new Sentinel Agreement effective July 1, 2012, Probation established new policy and procedures that define responsibility for receiving, reviewing, and verifying information in the monthly statements submitted by Sentinel. The procedures define responsibilities for Probation's Contract Manager, Fiscal Administrator, and the SEC Program Manager's receipt, review and verification of information in the monthly reports to ensure accuracy and completeness. Our Second Follow-Up Audit found that the monthly statements from Sentinel were routed to the appropriate individuals subsequent to our First Follow-Up Audit.

Additionally, Probation started conducting periodical fiscal audits of Sentinel to ensure accurate recording and reporting of transactions. We encourage Probation to continue its fiscal monitoring of these monthly statements and address any issues identified during the fiscal monitoring until they are satisfactorily resolved. Because Probation took measures to establish and implement policy and procedures concerning receipt and review of the monthly statements provided by Sentinel, we consider this recommendation implemented.

5. **Contractor Quality Control Plan Needs Enhancements** **(Significant Control Weakness)**
Probation Department ensure Sentinel establish and maintain a formal and signed Quality Control Plan to ensure that the requirements of the Contract are met. An updated copy must be provided to Probation as changes occur.

Current Status: **Implemented (Second Follow-Up Audit).** Probation received a formal Quality Control Plan from Sentinel, dated October 11, 2012, and was signed in December 2012. The Quality Control Plan provides an overview of Sentinel's Quality Assurance Review Process for its operations. Within the Quality Control Plan are contractor performance requirements that are to be evaluated periodically by Probation (see **Finding No. 6** below). Because Probation obtained a formal, signed Quality Control Plan from Sentinel, we consider this recommendation implemented.

6. **Contractor Quality Assurance and Performance Requirements Not Evaluated** **(Significant Control Weakness)**
Probation Department ensure contractor performance requirements are evaluated and documented using quality assurance procedures specified in the contract.

Current Status: **Implemented (Second Follow-Up Audit).** In the new Sentinel Agreement effective July 1, 2012, specific contractor performance requirements are included, such as late fees charged to contractor for late payment; unannounced visits to contractor's laboratory for inspecting conditions; record keeping reviews; maintenance of minimum equipment failure rate; monetary penalties for nonconformance by contractor; and failure to inform assigned Deputy Probation Officer of a zone violation, tamper alarm incident, or alert. Probation implemented policy and procedures to ensure the contractor performance requirements are monitored and enforced. We observed documentation received from Sentinel at Probation's request that addressed the contractor performance requirements.

Because Probation implemented policy and procedures to ensure contractor performance requirements are evaluated and documented using quality assurance procedures specified in the contract, we consider this recommendation implemented.

7. **Number of SEC Program Participants Not Verified** **(Control Finding)**
Probation Department implement a process to periodically verify the number of daily SEC Program Participants provided by Sentinel.

Current Status: **Implemented (Second Follow-Up Audit)**. The new contract between Sentinel and the County effective July 1, 2012, modified the non-refundable monthly fee structure to 38% of monthly gross revenues, whereby reporting of average number of daily SEC Program Participants is not required.

Probation developed policies and procedures to verify SEC Program participants by having the Fiscal Administrator audit between 2% and 5% of offender financial records each quarter to determine the accuracy and completeness of reported gross revenues. In addition, the SEC Program Manager reconciles at least twice per month Probation's daily list of monitored offenders with the daily list from Sentinel. We noted that some discrepancies were noted by Probation based on their fiscal monitoring and reconciliations, and are taking measures with Sentinel to remedy the reconciling items. As such, we encourage Probation to continue its fiscal monitoring and reconciliations, and address any issues identified during the fiscal monitoring until they are satisfactorily resolved. Because Probation implemented a process to periodically verify the number of daily SEC Program Participants provided by Sentinel, we consider this recommendation implemented.

8. **No Supervisory Review and Approval of SEC Annual Reconciliation** **(Control Finding)**
Probation Department ensure a Supervisor documents their review and approval of the SEC/Home Detention Program *Annual Reconciliation Package* to ensure accuracy and completeness of the reconciliation.

Current Status: **Implemented (Second Follow-Up Audit).** We observed that the Probation Fiscal Administrator prepared the SEC/Home Detention Program *Annual Reconciliation Package* for FY 2011-12, which was reviewed and approved by the Probation Fiscal Manager. Because Probation implemented policy and procedures to ensure a Supervisor documents their review and approval of the SEC/Home Detention Program *Annual Reconciliation Package*, we consider this recommendation implemented.

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

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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Members, Audit Oversight Committee
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Bryan Prieto, Chief Deputy Probation Officer, Operations Support Bureau
Sean Barry, Chief Deputy Probation Officer, Juvenile Intake/Detention Bureau
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