

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

1. Chelan County's Probation Department does not have adequate internal controls over cash receipting and accounts receivable, increasing the risk that undetected errors or potential misappropriation could occur.

Description of Condition

The Probation Department is responsible for ensuring collection and payment of fees collected for probation services based on its established policies and fee schedules. In 2013 the County's probation office receipted \$273,793 in probation fees assigned by the District Court. It recorded \$513,750 in adjustments and waivers to account balances, effecting 1,114 transactions.

We reviewed internal controls over fee adjustments and accounts receivable and noted the following deficiencies:

- Existing policies are outdated and vague in directing employees to follow a standardized receipting process or state law. These policies also do not identify individuals responsible for key control activities.
- Three cashiers, including the department manager, are responsible for collecting payments and adjusting account balances; however, no one reviews or approves the activity.
- The department does not maintain sufficient documentation to support adjustments or fee waivers made to accounts receivable. In addition, adjustment amounts are not consistently calculated.

Cause of Condition

The department's case management system does not produce reports necessary for effective monitoring of account activity, and the County has not developed alternative methods to monitor. Further, District Court management has not dedicated the necessary resources to establish effective policies and internal control expectations for probation department staff. Lastly, Probation Department staff has not devoted sufficient effort to provide information to District Court management when requested.

Effect of Condition

The lack of control and oversight over probation department transactions increases the risk that misappropriation or misuse of department resources could occur and not be detected in a timely manner. Furthermore, it is unlikely the County would be able to assign responsibility for a loss if one were to occur.

During 2013, the County Probation Department reduced account balances through adjustments by \$513,750. These adjustments were not approved by a supervisor or court order. We examined 100 transactions totaling \$44,910 of the 1,114 adjustments made during 2013 and found:

- Seventeen transactions lacked supporting documentation, including three adjustments that were made to reconcile and balance the daily cash deposit.
- Thirty-nine transactions were not computed accurately per the probation fee schedule or waiver policy for a total of approximately \$9,900.

Recommendation

We recommend County District Court management and the Probation Department:

- Establish and notify employees of written policies and procedures related to cash receipting and collections, including approval of adjustments and waivers.
- Effectively segregate duties between cash receipting, accounts receivable, and adjustment of accounts.
- Perform an independent review of adjustments or establish alternate mitigating controls to prevent unauthorized adjustments.
- Update the current data processing system to address weaknesses in system access and the lack of effective monitoring reports.

County's Response

The Chelan County District Court thanks the State Auditors for reviewing the Probation Department's compliance with state laws and regulations and the County's own policies and procedures regarding cash receipting and collection. The District Court Judges share the Auditor's desire and commitment to safeguard public resources and will implement the following steps to address the Auditor's concerns and recommendations:

- 1. The District Court Judges and Probation Director will review and update the fee collection policies and procedures that were revised in December 30, 2003, to provide clear direction to employees regarding cash receipting and collections, including segregation of duties and approval of adjustments and waivers. Each affected employee will be provided written copies of the Department's policies and procedures as well as a copy of the Chelan County Treasurer's Cash Handler's Manual.*
- 2. The Probation Director will work diligently with the Treasurer to ensure that all affected employees receive training regarding the policies and procedures. All*

affected employees, including the Probation Director, will also attend the Treasurer's Cash Handler's Policy and Certification Program as soon as possible.

- 3. To avoid any unauthorized adjustments, the District Court Probation Director will perform a weekly, independent review of all adjustments. The Probation Director will provide a detailed report of all adjustments to the District Court Administrator monthly. The Probation Director will also reconcile the Restitution Trust Account to the bank statement monthly and provide a copy of the reconciliation to the District Court Administrator each month.*
- 4. The Probation Director will work diligently with the County's Accountant and the IT Department to move to a data processing system that will allow quick access to reports and effective monitoring of account activity.*

We trust that the above steps will address the Auditor's stated concerns.

Auditor's Remarks

We appreciate the steps the County is taking to resolve these concerns. We will review the status during our next audit.

Applicable Laws and Regulations

RCW 43.09.200, Local government accounting — Uniform system of accounting, states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

RCW 10.64.120, Referral assessments — Probation department oversight committee, states in part:

Every judge of a court of limited jurisdiction shall have the authority to levy upon a person a monthly assessment not to exceed one hundred dollars for services provided whenever the person is referred by the court to the misdemeanor probation department for evaluation or supervision services. The assessment may also be made by a judge in superior court when such misdemeanor or gross misdemeanor cases are heard in the superior court.

(2) For the purposes of this section the administrative office of the courts shall define a probation department and adopt rules for the qualifications of probation officers based on occupational and educational requirements developed by an oversight committee. This oversight committee shall include a representative from the district and municipal court judges' association, the misdemeanor corrections association, the administrative office of the courts, and associations of cities and counties. The oversight committee shall consider qualifications that provide the training and education necessary to (a) conduct presentencing and post sentencing background investigations, including sentencing recommendations to the court regarding jail terms, alternatives to incarceration, and conditions of release; and (b) provide ongoing supervision and assessment of offenders' needs and the risk they pose to the community.

(3) It shall be the responsibility of the probation services office to implement local procedures approved by the court of limited jurisdiction to ensure collection and payment of such fees into the general fund of the city or county treasury.

(4) Revenues raised under this section shall be used to fund programs for probation services and shall be in addition to those funds provided in RCW 3.62.050.

(5) Assessments and fees levied upon a probationer under this section must be suspended while the probationer is being supervised by another state under RCW 9.94A.745, the interstate compact for adult offender supervision.

Budgeting Accounting and Reporting System (BARS) Manual – Accounting, Accounting Principles and General Procedures, Internal Control, states in part:

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has ultimate responsibility for ensuring adequate controls to achieve

objectives, even though primary responsibility has been delegated to management.

Budgeting Accounting and Reporting System (BARS) Manual – Accounting, Accounting Principles and General Procedures, Original Supporting Documentation, states in part:

Local governments are responsible for obtaining and ensuring the integrity and retention of the original vouchers, receipts, and other documents - regardless of physical form - necessary to isolate and prove the validity of every transaction relating to the receipt, use and disposition of public funds or property (RCW 43.09.200).