



County of Riverside

INTERNAL AUDITOR'S REPORT

PROBATION DEPARTMENT

January 12, 2006

Office of
Robert E. Byrd, CGFM
County Auditor-Controller

4080 Lemon Street
P.O. Box 1326
Riverside, CA 92502-1326



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January 12, 2006

Ms. Marie Whittington
Chief Probation Officer
Probation Department
4095 Lemon Street
Riverside, CA 92501

Subject: Internal Auditor's Report # 2006-003 – Probation Department

Dear Ms. Whittington:

We have completed an audit of the Probation Department. We conducted the audit during the period September 26, 2005 through December 14, 2005, for operations of July 1, 2003 through June 30, 2005.

Our purpose was to provide management and the Board of Supervisors with an independent assessment about the adequacy of internal controls over the department's processes and fiscal procedures.

We conducted our audit in accordance with the 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 the audit provides a reasonable basis for our conclusions.

Based upon the results of our audit, we determined the Probation Department has adequate internal controls in place over the payroll and cash handling processes. However the department has inadequate internal controls over the capital assets and purchasing processes and functions. Throughout the audit, we discussed the results contained in this report, as well as comments and suggestions of lesser significance, with the appropriate level of management.

We thank the Probation Department's management and staff for their cooperation during the audit. Their assistance contributed significantly to the successful completion of the audit.

Robert E. Byrd, CGFM
County Auditor-Controller

A handwritten signature in black ink, appearing to read "Michael G. Alexander", with a long horizontal stroke extending to the right.

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

cc: Board of Supervisors
Judge of the Superior Court
County Counsel
Executive Office
Grand Jury
Purchasing Director

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Executive Summary

Overview

The Probation Department serves the courts, protects the community, and assesses and supervises juvenile and adult probationers. It also provides youth diversion programs and early intervention services. The department provides drug court services, family violence intervention and the mentally ill offender crime reduction program.

Juvenile institutions provide both temporary detention for minors awaiting court hearings or placement and treatment for minors as ordered by the court. The department operates detention facilities in the City of Riverside, the City of Indio, and Southwest Riverside County. It also operates the youth placement center at Twin Pines and the youthful offender residential treatment program at the Van Horn Youth Center, providing a total capacity of 573 beds in all juvenile halls.

Probation Field Services provides for adult and juvenile intake, investigation and supervision, intensive supervision and juvenile placement services. Some staff members participate in the multi-agency, grant-funded narcotics task force to help apprehend drug-related probation violators.

Overall Objective

To determine the existence and adequacy of internal controls over the purchasing, capital assets, cash handling and payroll processes.

Overall Conclusion

Based upon the results of our audit, we determined the department has adequate internal controls in place over the cash handling and payroll processes. However, the department has inadequate internal controls over the capital asset and purchasing processes and functions.

Details about our audit methodology, results, findings and recommendations are provided in the body of our report.

Objectives To determine the existence and adequacy of internal controls over the purchasing, capital assets, cash handling and payroll processes.

Methodology To accomplish our objectives, we:

- performed a financial analysis for the period of July 1, 2003 through June 30, 2005;
- identified and reviewed applicable policies and procedures, Board ordinances, laws, codes, and regulations;
- identified accounts for detailed testing;
- conducted interviews and performed walk-throughs with department personnel;
- completed narratives of various processes;
- performed a risk assessment of the department's processes;
- conducted operational reviews and observations;
- reviewed receipts for controls over safeguarding prior to deposit, timeliness of deposit, monitoring and recording;
- reviewed and performed detailed testing of the department's acquisition, monitoring and disposal process of capitalized and non-capitalized assets; and,
- reviewed department's claims, purchasing, receiving, payables and payroll processes.

Results

Purchasing Process

The authority to purchase or contract is the exclusive right of the Board of Supervisors and the County Purchasing Agent. The Board of Supervisors delegated authority for purchasing and contracting to the County Purchasing Agent (Director of Purchasing), via County Ordinance 459.4.

The County Purchasing Agent has granted the Probation Department Low Value Purchase Authority (LVPA) status. The department assigned various individuals in the Administration Office, Institutions and Field Office to conduct purchases up to \$2,500 per vendor, per day.

During our audit we randomly selected seventy-five cash disbursement transactions to test the department's controls and compliance with County Purchasing policies. Based upon the results of our testing, we determined that there are areas of improvement in the purchasing process as follows:

Finding 1

The County Purchasing Policy and good internal controls dictate that purchases must be authorized prior to actually ordering items. County Purchasing Policy requires Purchase Orders(POs) to be issued for all purchases over \$200, except for certain items such as utilities. Out of seventy-five transaction tested, thirty-six were PO exempt due to value and/or nature. We found two transactions which were accompanied by a PO that was signed and approved prior to the ordering of the goods/services. Although the remaining thirty-seven transactions were accompanied by a PO, we found the POs to be created and approved subsequent to the receipt of goods/services.

Based upon our sample, we noted that POs were created anywhere from 3 to 159 days after the receipt of goods or services and/or receipt of vendor's invoice. On the average, the POs were created twenty-three days after the receipt of goods or services and/or vendor's invoice. Of the thirty-seven transactions, at least twelve POs were dated subsequent to the invoice payment due date. Payment to those vendors was relatively late.

The late creation of POs in the accounting system creates many problems for the department:

- There is no evidence of purchases being approved prior to the ordering of the goods or services. This is not in compliance with County Policy.

- Without POs the funds necessary to pay for those obligations are not promptly encumbered.
- It increases the likelihood of late payment to our vendors, causing possible late fees which could negatively affect the County's credit rating and good will with our vendors.

Recommendation 1.1 We recommend 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.

Management's Reply Concur. Interim department procedures and instructions for accessing the County Purchasing Manual have been distributed and staff were trained on January 10, 2006. Formal policies and procedures will be developed and fully implemented by June.

Estimated Date of Corrective Action: June 30, 2006

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

Management's Reply Concur. A draft Purchase Request Form to document management approvals and a flow chart for processing purchases and payments were distributed to staff at a training meeting on January 10, 2006. The final version will be incorporated into a formal purchasing procedure that will insure PO's are processed before receipt of goods or services. The exception will be food orders, for which PO's will be entered within three days of receiving the goods to insure correct pricing prior to payment.

Estimated Date of Corrective Action: June 30, 2006

Recommendation 1.3 It is our understanding that each institution has its own internal requisition order(s) used to place orders with vendors. However, these requisition orders are not attached to the invoice used to process payment. If these requisition forms are used, we recommend that these forms be attached to the invoice which is used for payment process.

Management's Reply Concur. A standardized Purchase Request Form will be used in the future to document management approvals. Until then, institutions will

include local requisition forms with their invoices for processing as described in the comments for Recommendation 1.2.

Estimated Date of Corrective Action: June 30, 2006

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.

Further the Auditor Controller's Internal Control Handbook, Chapter 6, section 3 states that "Inventory items received should be inspected, counted, or weighted and appropriate receiving documentation matched with requisitions, invoices, and PO, if applicable; and, the person responsible for verifying the receipts of inventory items should document the verification by signing or initialing the receiving document." Failure to verify the delivery of goods or services could result in payment to vendors who did not provide the goods or services to the department.

During our audit testing 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 as follows:

- We found three instances where the person placing the order, also verified the receipt of goods or services, and authorized the invoice for payment.
- Sixteen transactions were PO exempt. The only documentation supporting payment for those transactions was either a packing slip or an invoice. Twelve of the orders were received by functional staff (food processor, mechanic, etc) who signed the packing slip with no additional documentation from an independent individual approving either the order or the payment. The other four exempt orders had neither the packing slip nor the invoice approved. Accordingly, payments to these vendors were made without any form of documentation approving the order, the receipt, or the invoice.
- In two transactions, although the PO was included, it was not signed. Once again, only the receiver signed the packaging slip. Thus there is no independent verification or approval for payment.

- In one instance where supplies were ordered for an Institution, the invoice was approved by an individual in the Administration Office, rather than management of the Institution. There was no packaging slip attached to the invoice. Thus there is no indication that the receipt of goods was confirmed prior to approval of the invoice.
- One transaction was for payment of services rendered at various Institutions. The department's management informed us that invoices from contracted services were mailed to the Administration Office, where they were approved for payment, even though the services were for outside Institutions. The person authorizing the invoices at the Administration Office, verified compliance with contract service, but did not confirm hours, dates and location of services with the individual Institutions prior to invoice approval.
- In one instance the invoice was paid without verification that goods were received because the PO and packaging slip were lost.

Recommendation 2.1 We recommend 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.

Management's Reply Concur. Implementing this recommendation will address nearly all of the other audit findings as well. The department has been struggling to meet workload requirements since the conversion to PeopleSoft, which brought with it a number of procedural changes and tasks that had not previously been required. While this was originally viewed as a temporary workload brought on by the transition, much of it has remained, and shortcuts taken to get the work done have weakened the system of internal controls. Some of these exceptions, such as assigning multiple roles where staff was limited and streamlining procedures for food purchases were coordinated through OASIS at the outset with Purchasing and the Auditor-Controller's Office. Probation, however, shares the concern raised in the audit and is already working to strengthen our processes.

In August 2005, we filled a newly established Principal Accountant position, and began reviewing our processes and control systems. We also were authorized a Staff Analyst II position in the FY 2005/06 Budget to improve oversight of the purchasing and contracting processes. It is clear, however, that additional accounting and

purchasing line staff will be needed also, based on our own review as well as the audit findings. We will evaluate all of our institution accounting, purchasing, and clerical positions to determine what tasks should be redistributed and what additional positions will be required. As much as possible, we will address position changes or additions in the FY 2006/07 Budget submission in March. We expect to have recommended procedures to define and segregate roles and approval levels written by June 30, 2006. Full implementation of procedures may be delayed until after position changes take effect in July 2006.

Estimated Date of Corrective Action: September 30, 2006

Estimated cost to implement recommendation: The only significant cost will be the ongoing funding for positions exchanged or added. This can not be determined until we have completed an analysis of staffing and quantified the additional needs, but a figure of \$300,000 or more per year is likely. Precise costs will be determined as we approach this issue in the budget process.

Recommendation 2.2 Further, we recommend 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.

Management's Reply Concur. Procedures are established but have not been consistently enforced. Purchasing and Accounting staff from all locations were trained on the recommended procedures on January 10, 2006, including distribution of a detailed flow chart. Vouchers will no longer be approved at the department level without proper receiving documentation.

Actual Date of Corrective Action: January 10, 2006

Finding 3 County purchasing policy requires departments to purchase products from vendors holding existing County awards. From our sample, we tested the department's compliance with contractual agreements and County Purchasing Policy. We identified certain areas of non-compliance with policy.

As part of our detailed testing of randomly selected invoices, we tested three invoices from a janitorial supplies vendor. We compared the invoiced products to the County Contract and found the following:

- At least three products that were not in the contract were purchased from this vendor. These three products were under contract with a different vendor who offered lower contractual prices. If the department had purchased the products from the County awarded vendor, it would have saved \$184.96 on those three invoices.
- We found that a product, under contract, was purchased from the proper vendor, however, the price charged by the vendor did not match the contractual price. Since the department failed to compare the invoice price to the contractual price, the department paid an additional \$151.03 in those three invoices.
- We also noted that the department could have saved money if it purchased the correct contract products over similar non-contractual products. In our sample, we found the department purchased two non-contractual products at higher cost than similar contractual products. The difference between the contractual products vs. non-contractual products was minimal. If the department had ordered the correct contractual products, it would have saved an additional \$75.40.
- Overall, the department lost \$411.39 in savings out of \$4,188.11 total cost in those three invoices, or 9.8%.
- Additionally, we found that subsequent to our audit period of June 30, 2005, the County's contract with this specific vendor terminated as of August 31, 2005. Since the contract termination date of August 31, 2005 the department acquired an additional \$27,000 in supplies which should have been acquired through the newly awarded contracted vendor.

The savings identified is not significant in relation to total purchases because it is based only on a sample of invoices. However, if the results were inferred to all purchases made, the savings could be significant.

County Purchasing holds two County Contract for certain food items, the cost of which varies daily. Per discussion with County Purchasing personnel, it is each department's responsibility to obtain a price quote from both contracted vendors prior to placing an order. Based on our discussion with the buyers at each institution, the buyers have various processes for determining which vendor to order food from: monthly prices lists comparisons from each vendor, previous invoice prices, experience with product's quality, delivery, and/or vendor's reliability.

During our audit we noted that for the most part, both vendors obtain an equal share of business from each Institution, except for Twin Pines

Ranch. Twin Pines Ranch exclusively obtains food products from one of the two vendors. There is no evidence the buyer at this location performs a price comparison between the two vendors.

The County currently does not hold a contract for certain food items (produce, bakery, meat services) with any vendor(s). It is the department's responsibility to obtain informal price quotes from a list of vendors prior to placing orders over \$1,000. These types of orders are below \$1,000 per order, therefore the process of informal quotes is not necessary. However, we noted that each Institution exclusively purchases from one vendor it selects. In some instances annual purchases from each of these exclusively selected vendors exceeded \$25,000. County Purchasing Policy states that Board approval is required to purchase any item or service valued over \$25,000 without obtaining competitive bids, regardless of whether a bid was issued or not. It further states that sole source between \$1,000 and \$25,000 requires approval from either the Purchasing Director, Assistant Director, or the Purchasing Manager.

Recommendation 3.1 We recommend 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.

Management's Reply Concur. Training of institutional buyers (actually LVPA and Requisition Processors) will be stepped up, beginning with a training meeting held January 10, 2006. An important step in this training will be improved interface with County Purchasing. This will be facilitated by the recent designation of our new Staff Analyst as an authorized and trained Buyer. Also, in a recent meeting, County Purchasing managers agreed to clarify what items are included in County contracts, especially in the area of food items. Procedures will be finalized by June and training will continue quarterly.

Estimated Date of Corrective Action: June 30, 2006

Estimated cost to implement recommendation: Additional staff may be needed to support the purchasing function at one or more institutions. (See comments for Recommendation 2.1)

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.

Management's Reply Concur. An internal policy on purchasing food has been distributed to all purchasing staff. Twin Pines purchasing will be monitored for compliance.

Estimated Date of Corrective Action: June 30, 2006

Estimated cost to implement recommendation: Additional staff may be needed to support the purchasing function at Twin Pines. (See comments for Recommendation Number 2.1.)

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.

Management's Reply Concur. Other measures implemented as a result of this audit should minimize the need for sole source approvals. Where special situations do exist, proper approval authority will be requested. Purchasing staff from all locations were trained on these procedures on January 10, 2006, and an analysis will be done over the next few months to determine where sole source requests are appropriate.

Estimated Date of Corrective Action: June 30, 2006.

Results

Capitalized Assets Process

As of June 30, 2005, the Probation Department owned 136 capitalized assets, per the capitalized fixed asset listing provided by the Auditor-Controller's Office. These assets had a recorded cost of \$1,718,058 including items such as automobiles, cameras, office equipment and kitchen appliances.

The head of each department or agency within the County of Riverside is required to account for County property in his/her possession or charge. This responsibility should include performance of an annual inventory and establishment of internal controls over the acquiring, monitoring, and disposal of capital and non-capitalized assets. During our audit we randomly selected thirty-two out of the 136 capitalized assets for detail testing.

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. Specifically:

- Three of thirty-two capitalized assets selected for testing could not be located, nor could the disposition of these assets be confirmed.
- Two capitalized assets selected for testing were returned to the vendor while under warranty and replaced by the vendor with new assets. The fixed asset module was not updated for the disposal of the assets under warranty and the acquisition of the new assets.
- Seven assets out the thirty-two tested were physically inspected, however the asset did not match the Capitalized Asset Listing report. The assets on location differ in description, model, serial identification number, etc. Thus, we were unable to confirm if the assets inspected were in-fact the assets listed on the report.
- Fourteen assets observed had no County tags to match the capital asset listing.

Standard Practice Manual III-E-2-1.1 requires the Auditor-Controller's Office to be "notified within 30 days of each acquisition, betterment, modification, disposal, transfer or change to fixed assets." If records are not updated to reflect changes in the ownership of capitalized fixed assets, a loss or misrepresentation of these assets may occur.

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.

Management's Reply Concur. Asset changes not yet completed will be processed by March 31 and the department will continue to observe a 30 day time frame for future reporting. Along with this we will work with the ACO to clarify documentation requirements, as this has been an issue on some occasions in the past.

Estimated Date of Corrective Action: March 31, 2006.

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

Management's Reply Concur. Internal policy regarding fixed asset management will be established by the end of fiscal year 2005/06.

Estimated Date of Corrective Action: June 30, 2006.

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 the listing being verified by means of a physical inventory.

Not properly updating the capital asset listing to reflect all acquisitions and disposals during the fiscal year may result in either the overstatement of deleted assets, or the understatement of omitted additions. Conducting an annual inventory count would have identified the discrepancies previously discussed. SPM III-E-2-1.1, Section III, H, requires each department to update the capital asset listing and have management certify the accuracy of the report. This SPM enforces California Government Code Section 24051 which specifically states that on or before July 10th in each year, each county officer or person in charge of any office, department, service, or institution of the county shall file with the County Clerk, or with the County Auditor, an inventory under oath, showing in detail all County property in his or her possession or in his or her charge at the close of business on the preceding June 30th.

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.

Management's Reply Concur. Between now and June 30, 2006, the department's central Fiscal Services Unit will conduct a full inventory at all department locations to assure that the items are correctly listed as to model number, serial number, etc., and that fixed asset tags are either in place or new ones are ordered. It should be noted that the three assets not found by the auditor had been certified by the department to acknowledge accountability for assets that had been disposed of but were still on the list. This occurred because the documentation of disposal had been submitted but not approved by the ACO.

Estimated Date of Corrective Action: June 30, 2006

Auditor's Comment One out of the three assets identified in Finding 4 was in fact reported by the department as scrapped on the June 30, 2005 certification listing. However form AM-7, "Capital Asset Disposition Form," with supporting disposal documentation was not submitted to the ACO for proper disposal. The other two assets identified as scrapped in the June 30, 2005 certification listing are not the same assets identified during our audit.

Results

Cash Handling Process

We noted the cash handling process followed good internal control procedures at the Riverside Administration Office and Field Offices. Receipts were stored in locked cabinets or safes with limited access, checks were restrictively endorsed upon receipt, and Official County Receipts were issued for all monies receive. Procedures existed to ensure collections were recorded accurately and promptly with management's review.

Based upon the results of our testing, we determined no significant issues over the cash handling process existed. All minor concerns were discussed with the appropriate level of management. Overall, the department had a good system of internal controls in place, to adequately safeguard assets and comply with applicable County regulations over the cash handling process.

Results

Payroll Process

The department processes employee timesheets on a bi-weekly basis. Employees are responsible for completing and submitting their timesheets to management at the end of each pay period. Management reviews employees' timesheets for accuracy. Once approved by management, timesheets are forwarded to the department's payroll staff.

Payroll staff performs a final review to ensure employees' hours are accurately reported and, if applicable, sufficient hours, such as vacation time and sick time are available. Once timesheets are approved by payroll, they are processed in OASIS, where a payroll report is generated. Payroll staff reviews the report to ensure the accuracy of the information processed. The payroll reports are submitted to management for review and approval in OASIS.

Based upon the results of our testing, we determined the department had a good system of internal controls in place, to ensure employee payroll hours are accurately reported.

MARIE WHITTINGTON
Chief Probation Officer

EDWARD R. VASQUEZ
Chief Deputy
Field Services

CRAIG S. CASS
Chief Deputy
Institutions



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Probation Department County of Riverside

Date: January 11, 2006

To: Auditor-Controller
Audits and Specialized Accounting Division

From: Marie Whittington, Chief Probation Officer *M*
Probation Department

Re: Reply to Draft Audit Report

Recommendation Number 1.1

We recommend 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 PO's.

a. Management position concerning the recommendation:

 X Concur Disagree

b. Comments:

Interim department procedures and instructions for accessing the County Purchasing Manual have been distributed and staff were trained on January 10, 2006. Formal policies and procedures will be developed and fully implemented by June.

c. Actual/Estimated Date of Corrective Action: June 30, 2006

d. Estimated cost to implement recommendation (If material): None

Recommendation Number 1.2

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

a. Management position concerning the recommendation:

Concur Disagree

b. Comments:

A draft Purchase Request Form to document management approvals and a flow chart for processing purchases and payments were distributed to staff at a training meeting on January 10, 2006. The final version will be incorporated into a formal purchasing procedure that will insure PO's are processed before receipt of goods or services. The exception will be food orders, for which PO's will be entered within three days of receiving the goods to insure correct pricing prior to payment.

c. Actual/Estimated Date of Corrective Action: June 30, 2006

Recommendation Number 1.3

It is our understanding that each institution has its own internal requisition order(s) used to place orders with vendors. However, these requisition orders are not attached to the invoice used to process payment. If these requisition forms are being used as informal PO's or verification of order approval, then we recommend that these forms be attached to the invoice which is used for payment process.

a. Management position concerning the recommendation:

Concur Disagree

b. Comments:

A standardized Purchase Request Form will be used in the future to document management approvals. Until then, institutions will include local requisition forms with their invoices for processing as described in the comments for Recommendation 1.2.

c. Actual/Estimated Date of Corrective Action: June 30, 2006

d. Estimated cost to implement recommendation (if material): None

Recommendation Number 2.1

We recommend 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.

a. Management position concerning the recommendation:

Concur Disagree

b. Comments:

Implementing this recommendation will address nearly all of the other audit findings as well. The Department has been struggling to meet workload requirements since the conversion to PeopleSoft, which brought with it a number of procedural changes and tasks that had not previously been required. While this was originally viewed as a temporary workload brought on by the transition, much of it has remained, and shortcuts taken to get the work done have weakened the system of internal controls. Some of these exceptions, such as assigning multiple roles where staff was limited and streamlining procedures for food purchases were coordinated through OASIS at the outset with Purchasing and the Auditor-Controller's Office. Probation, however, shares the concern raised in the audit and is already working to strengthen our processes.

In August 2005, we filled a newly established Principal Accountant position, and began reviewing our processes and control systems. We also were authorized in the FY 2005/06 Budget a Staff Analyst II position to improve oversight of the purchasing and contracting processes. It is clear, however, that additional accounting and purchasing line staff will be needed also, based on our own review as well as the audit findings. We will evaluate all of our institution accounting, purchasing, and clerical positions to determine what tasks should be redistributed and what additional positions will be required. As much as possible, we will address position changes or additions in the FY 2006/07 Budget submission in March. We expect to have recommended procedures to define and segregate roles and approval levels written by June 30, 2006. Full implementation of procedures may be delayed until after position changes take effect in July 2006.

c. Actual/Estimated Date of Corrective Action: September 30, 2006

d. Estimated cost to implement recommendation (if material): The only significant cost will be the ongoing funding for of positions exchanged or added. This can not be determined until we have completed an analysis of staffing and quantified the additional needs, but a figure of \$300,000 or more per year is likely. Precise costs will be determined as we approach this issue in the budget process.

Recommendation Number 2.2

Further, we recommend 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.

a. Management position concerning the recommendation:

 X Concur Disagree

b. Comments:

Procedures are established but have not been consistently enforced. Purchasing and Accounting staff from all locations were trained on the recommended procedures on

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

a. Management position concerning the recommendation:

Concur Disagree

b. Comments:

Internal policy regarding fixed asset management will be established by the end of fiscal year 2005/06.

c. Actual/Estimated Date of Corrective Action: June 30, 2006.

d. Estimated cost to implement recommendation (If material): None.

Recommendation Number 5

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

a. Management position concerning the recommendation:

Concur Disagree

b. Comments:

Between now and June 30, 2006, the Department's central Fiscal Services Unit will conduct a full inventory at all Department locations to assure that the items are correctly listed as to model number, serial number, etc., and that fixed asset tags are either in place or new ones are ordered. It should be noted that the three assets not found by the auditor had been certified by the Department to acknowledge accountability for assets that had been disposed of but were still on the list. This occurred because the documentation of disposal had been submitted but not approved by the ACO.

c. Actual/Estimated Date of Corrective Action: June 30, 2006

d. Estimated cost to implement recommendation (If material): None.