COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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September 28, 2010

TO: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **PROBATION DEPARTMENT – PROCUREMENT REVIEW (PHASE I)**

In 2007 your Board instructed the Auditor-Controller (A-C) to develop a risk-based plan to audit procurement operations in all County departments. In accordance with the developed plan, we completed a review of the Probation Department's (Probation or Department) compliance with County procurement policies and procedures.

This is Phase I of our review which focused primarily on the procurement activities of Probation's three juvenile halls and 16 camps. In the next phase, we will evaluate procurement activities of the Department's headquarters and field offices. Our review covered credit card purchases, purchasing/payment controls and inventory.

Summary of Findings

Our review disclosed a number of significant deficiencies in the procurement operations of Probation's juvenile halls and camps, including serious violations of County fiscal and purchasing policies, and a lack of critical internal controls (e.g., separation of duties, etc.). These deficiencies have resulted in a lack of accountability and could result in misuse of County property and/or funds.

The following are examples of the problems noted in our review of May 2007 through March 2009 transactions:

- Probation camp staff obtained non-County approved credit cards from individual stores (e.g., Best Buy, Sears, Home Depot, etc.) and used them for what appear to be unnecessary, non-emergency purchases. For example, one camp bought five lawn mowers, four of which had not been used approximately two years after they were purchased. The camps also used the cards to purchase home theater systems, DVD players, video game consoles and video games, etc., totaling $4,500, seven LCD TVs and wall mounting kits for $4,700, weekly/monthly planners for $2,000, and five leather chairs for $1,000. In addition, although there are common areas where juveniles would watch TV and play video games, we noted that some LCD TVs and video game consoles were located in staff offices.

  In addition, 54 (61%) of 88 individual items, or $3,140 (13%) of $23,500 in total purchases, we reviewed that were purchased with the credit cards were missing. For example, at one camp six (67%) of nine Play Station video game consoles and 40 (89%) of 45 video games, valued at approximately $2,000, were missing. Another camp did not know that a video game console, valued at $400, was missing until we asked about it.

  Probation Response – Probation indicated that all credit cards or credit accounts have been cancelled and that disciplinary action will be taken against employees determined to have made/approved inappropriate purchases.

- The Department did not obtain required bids, for non-agreement purchases between $1,500 and $5,000, for ten (50%) of 20 purchases reviewed. In addition, we noted that Probation made purchases in excess of their delegated authority without having the purchases processed through the Internal Services Department (ISD) as required.

  Probation also should not split purchases to keep transactions under the Department's delegated purchasing limit. Nine (69%) of 13 judgmentally selected transactions were split to stay under the Department's $5,000 limit. For example, Probation purchased approximately $14,000 in T-shirts from one vendor on the same day, but prepared three separate purchase orders, ranging from $4,500 to $4,800.

  Probation Response – Probation indicates they have taken corrective action to implement the recommendations.

- We found significant differences in food costs among the camps. We noted that the cost for food ranged from $1.01 per meal to as much as $1.95, even though the

Camps are required to follow the same standardized menu. Some of the differences in food cost may be due to poor recordkeeping and inventory security at the camps.

Probation Response – Probation indicated they hired a Food Services Consultant, piloted an inventory tracking system, and are in the process of implementing the recommendations

In addition to the issues noted above, Probation needs to maintain complete inventory records of equipment/supplies and portable assets, and perform required annual inventories; notify ISD of frequently purchased items to obtain more favorable purchasing terms; and require Accounts Payable staff match payment documents (e.g., invoices, receiving reports, Purchase Orders, etc.) to ensure the Department only pays for goods actually ordered and received and pays the correct price.

Although this report is a review of Probation's procurement operations, we recommend that other County departments review the findings in this report and ensure that necessary controls are in place.

The detailed results of our review and recommendations for corrective actions are attached.

Review of Report

We discussed the results of our review with Probation management. Probation agrees with our findings and recommendations and will work to improve controls over their procurement practices. Probation's detailed response (Attachment) describes the corrective actions they have taken, or plan to take to address the recommendations in our report.

We thank Probation management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Terri Kasman at (213) 253-0103.

WLW:MMO:JLS:TK

Attachment

c: William T Fujioka, Chief Executive Officer
Donald H. Blevins, Chief Probation Officer, Probation Department
All Department Heads
Public Information Office
Audit Committee

PROBATION DEPARTMENT
PROCUREMENT REVIEW (PHASE I)

Background

The Probation Department's (Probation or Department) Procurement Section has overall purchasing responsibility for the Department, including obtaining needed services and supplies, and reviewing and approving all purchase requisitions and invoices. The Procurement Section's main office is at Probation Headquarters, with a satellite office in Lancaster. The main office processes purchases for Probation Headquarters, the three juvenile halls (halls) and the Department's field offices. The Lancaster office processes purchases for the Probation camps. Probation's fiscal year (FY) 2009-10 services and supplies budget was approximately $136 million, $64 million of which is for the halls and camps.

The Department's Property and Supply Section is responsible for receiving and maintaining equipment and supplies for the halls, controlling fixed assets and disposing of surplus/obsolete items. All of the camps receive and maintain their own equipment and supplies.

This phase of our procurement review focused on the halls and camps. We will review Headquarters and field office purchasing in the next phase of our review.

Scope of Review

We reviewed Probation's procurement practices for compliance with County policies and procedures. Our review included interviewing Probation personnel and vendors, evaluating purchasing and payment controls, inventorying a sample of equipment and observing supply warehouse and stockroom operations.

Credit Card Purchases

The County Fiscal Manual (CFM) allows departments to issue two types of credit cards: Internal Services Department (ISD) fuel/oil cards and the State CalCard purchasing cards. CFM Sections 4.4.4 and 4.4.5 require department heads to authorize specific individuals to receive the fuel/oil cards and require departments to develop an internal control plan and obtain Auditor-Controller approval before using CalCards. In addition, departments must have the cardholders sign an Agreement to Accept Purchasing Card, retrieve credit cards from cardholders who leave, etc.

Our review disclosed that Probation Camp staff obtained non-County credit cards from several stores (e.g., Best Buy, Staples, Sears, Lowes, Home Depot, etc.), which are not authorized under County policy. The cards were obtained without Department Head approval and without an internal control plan. Probation staff indicated that the cards were to be used for emergency purchases at the Camps.

We reviewed a sample of 17 purchases with the cards, between May 2007 and November 2008, totaling approximately $23,500, and noted the following:

- Probation staff used the cards for what appeared to be non-emergency items. For example, the camps used the cards to buy more than $15,000 in Sony PlayStation video game consoles, video games, LCD TVs, camcorders, DVD players, etc., $2,000 for weekly/monthly planners, and $1,000 for five leather chairs, etc. One camp bought five lawn mowers for a total of $1,300, but four of the mowers had not been used after two years. Another camp bought a barbeque grill that had not been used after 18 months. In addition, although there are common areas where juveniles would watch TV and play video games, we noted that some of the items (e.g., LCD TV, video game consoles, etc.) were located in staff offices.

  We noted that Probation did not have approvals for some of the 17 purchases, and that some of the purchase requests did not indicate what would be purchased. For example, one purchase request only indicated "Christmas gifts for minors". Without detailed descriptions, the approver cannot determine what items will be purchased and the Department cannot verify if the items were approved and received before making payment.

  We also noted that 54 (61%) of the 88 individual items purchased, or $3,140 (13%) of $23,500 in total purchases, were missing. For example, at one camp, six (67%) of nine Play Station (PS) 2s and 40 (89%) of 45 PS2 games, valued at approximately $2,000, were missing. Another camp did not know that one Play Station 3, valued at $400, was missing until we asked about it. None of the items had been reported lost or stolen. Finally, the items purchased from 15 (88%) of 17 credit card transactions were not added to the Department's portable assets inventory as required.

Probation also could not account for all of the credit cards. For example, one vendor issued four cards to the Department, but we were only able to locate one. Probation staff did not know who had other cards. The Department also did not always have sufficient separation of duties for credit card purchases. For example, we noted instances where the same employee bought/received the goods, received the account statements and approved payment.

The Department also made payments without reviewing all necessary documents. For example, Finance issued payments based on payment requests and receipts from a camp or from the Lancaster procurement office staff, but did not review the credit account statements. Finance should have reviewed the account statements, in addition to the receipts, to ensure they only paid for authorized purchases.

We informed Probation that all unauthorized credit/charge accounts should be terminated and all prior credit card purchases should be reviewed. In addition, to

ensure proper oversight of camp purchases, the Department should consider centralizing the camp procurement function.

Recommendations

Probation management:

1. **Ensure that all unauthorized credit cards have been terminated.**

2. **Review all purchases made with the unauthorized credit cards, and take appropriate action with employees who made/approved inappropriate purchases.**

3. **Locate items purchased with the credit cards and ensure appropriate items are added to the Department's asset inventory.**

4. **Ensure all purchase requests have detailed descriptions of the items to be purchased.**

5. **Consider centralizing the camp procurement function.**

Non-Agreement and Agreement Purchases

ISD establishes agreements with vendors for commonly purchased items. Departments can purchase items covered by ISD agreements without a transaction limit and do not need to obtain price quotes. These agreements should not be used to purchase non-agreement items. ISD also delegates authority to departments to purchase non-agreement items, up to set limits. Departments may be required to obtain price quotes for non-agreement items based on the amount of the purchase. Departments may not split purchases to stay under their delegated limit. In addition, departments should monitor their purchases to identify frequently used items and ask ISD to establish agreements for those items.

ISD has given Probation delegated authority to purchase non-agreement items under $5,000. Probation can make purchases under $1,500 without price quotes. The Department is required to obtain three price quotes for non-agreement purchases over $1,500, unless the item is only available from one vendor and cannot be easily substituted (sole source purchases). For purchases over $5,000, ISD obtains price quotes, selects a vendor, sets up a direct purchase order and orders the items from the vendor. We reviewed Probation's purchases for the period of July 2007 through March 2009 and noted the following:

- **No price quotes and a lack of justification** – Probation did not obtain the required price quotes for ten (50%) of the 20 non-agreement purchases we reviewed, totaling $33,625. On two purchases, the Department did not obtain any bids, but did not have documentation to justify the no-bids, as required. In

addition, we reviewed 13 non-agreement purchases over Probation's delegated purchasing authority of $5,000, and noted that none of the purchases were processed through ISD as required.

- **Split purchases and purchases in excess of Probation's delegated authority** – Probation split purchases to stay under the Department's delegated authority for nine (69%) of 13 transactions reviewed. For example, Probation placed three orders for T-shirts for juveniles, totaling approximately $14,000, from one vendor on the same day. The three POs were all just below the Department's delegated purchasing authority, ranging from approximately $4,500 to $4,800. The vendor subsequently issued three invoices matching the POs.

- **Inappropriate use of vendor agreements and POs** – Probation purchased non-agreement items from agreement vendors, using agreement POs, on four (40%) of ten purchases we reviewed, bypassing the bid requirements. On one of the purchases, the Department purchased non-agreement equipment for approximately $17,000, exceeding the Department's $5,000 delegated purchasing authority. However, since the purchase was processed as an agreement item, it was not submitted to ISD for processing. In addition, the Department did not always ensure agreement prices were received. As a result, the Department overpaid $486 on two (20%) of the ten purchases reviewed.

  For one purchase, the Department purchased agreement items from a non-agreement vendor, paying $300 more than the agreement price. For another purchase, the Department used a non-agreement purchase order to process an agreement purchase.

- **Frequently purchased non-agreement items** – Probation does not notify ISD of frequently purchased items. For example, we noted that the Department purchased similar/identical food items for the camps more than 500 times from one vendor, totaling approximately $300,000 in one year, but did not notify ISD to establish an agreement.

Recommendations

Probation management ensure staff:

6. **Obtain price quotes as required by County purchasing policies and justify all no-bid purchases in sufficient detail.**

7. **Process non-agreement purchases in excess of the Department's delegated purchasing authority of $5,000 through ISD.**

8. **Do not split purchases to circumvent the department's delegated purchasing authority.**

9. **Review vendor agreements, make purchases from the appropriate source (i.e., agreement or non-agreement vendors), use the correct POs, and ensure all agreement purchases receive agreement prices.**

10. **Monitor frequently purchased non-agreement items and notify ISD of the potential for establishing vendor purchasing requirements.**

Payment Practices

Matching Payment Documents

CFM Section 5.2.4 requires the Accounts Payable Section (A/P) to match vendor invoices with a receiving report/shipping document and purchase order before making a payment. This ensures payments are made for goods actually ordered and received, and that the correct price is paid.

We noted that Probation's A/P staff do not match the required documents. Instead, we were told that Procurement staff match vendor invoices with receiving reports and purchase orders, and only send a request for payment and invoice to A/P. This practice does not comply with CFM requirements. The document match should be performed by staff who are independent from ordering and receiving goods.

Since A/P staff do not perform the document match, we noted instances where the Department paid for items they did not order or receive. For example, Probation ordered and received one box of a food item, but the vendor incorrectly billed the Department for 20 boxes, overbilling the Department by $1,300. However, the Department paid for the 20 boxes when Procurement staff approved and forwarded the invoice to A/P for payment. The error could have been detected if A/P staff performed the required document match. The vendor subsequently noticed the error after receiving payment and refunded the overpayment.

Subsequent to our review, Probation management indicated that A/P staff are now completing the three-way match on all purchases before payments are made.

Recommendation

Probation management:

11. **Require Accounts Payable staff to match invoices with purchase orders and receiving reports prior to paying vendors.**

Timeliness of Payments

CFM Section 4.5.13 requires departments to pay vendors within 30 days of receipt of the vendor's invoice. Ten (25%) of 40 payments we reviewed were not paid within 30 days of receiving the invoice. The ten invoices were paid an average of 39 days late.

Recommendation

12. Probation management ensure vendors are paid within 30 days.

Marking Invoices Paid

The Fiscal Services Section does not consistently mark vendor invoices "paid." Ten (33%) of 30 invoices reviewed were not marked "paid." Vendor invoices should be marked "paid" to prevent reuse/duplicate payments. While we did not identify any duplicate payments, Fiscal Services should make the invoices "paid" to avoid the risk of errors.

Recommendation

13. Probation management ensure Fiscal Services Section marks invoices "paid" to prevent reuse.

Inventory Controls

CFM Section 5.2.2 requires departments to establish controls to ensure supply inventories are safeguarded from theft or personal use. The CFM also requires departments to maintain perpetual inventory records, conduct annual physical inventories, review inventory records periodically, account for receipts, issuances, and losses timely, and have sufficient separation of duties. Departments are also required to inspect, count and match items received to the invoice, receiving report and purchase order.

Camp Food Cost and Purchase/Inventory Controls

Probation serves meals to juveniles at the camps. Cooks at the camps order food and supplies and prepare the meals based on a standardized menu. The camps, excluding Challenger, which contracts out its food service, spent approximately $2.36 million on food in FY 2008-09.

We noted that there are significant differences among the camps in their monthly food cost. For example, one camp had a per meal cost of $1.01, while another Camp had a cost of $1.95. Challenger's per meal cost is approximately $1.15. Since the County-operated camps are required to follow a standardized menu and make purchases from the same suppliers, the differences should not be that significant. Probation management should evaluate the camps' food cost and evaluate whether to contract out other camps' food service to reduce costs.

We also noted that the camps do not have adequate controls over food purchases and inventories. For example, the camps do not have adequate separation of duties because the same person (a cook or head cook) can order, receive and approve payment for food purchases. The camps also do not maintain adequate food inventory

records. Although some camps conduct a limited monthly inventory (e.g., inventory of only dry foods, etc.), the chief cook who receives the inventory results discards the information at the end of each month. Furthermore, the head cooks at two (33%) of six camps indicated they do not always record when they dispose of recalled or spoiled food. Without adequate separation of duties, inventory and/or usage records, the Department may be unable to detect or prevent misuse/waste of food.

Recommendations:

Probation management:

14. **Evaluate the camps' food cost.**

15. **Evaluate contracting out for food service at the camps.**

16. **Develop and implement standardized procedures for ordering, inventorying and monitoring Camp food purchases and usage.**

17. **Review Camp food purchases and inventory records to ensure purchases and usage are reasonable.**

Internal Controls over Equipment and Supplies

In addition to controls over food inventory, we noted that Probation does not have adequate internal controls over the equipment and supply inventories in camps, halls, and warehouses. None of the six camps we visited maintained perpetual inventory records for supplies and the camps could not provide documentation that they conducted the required annual physical inventory counts.

We noted that employees with access to the inventory system can manually adjust the inventory records, without leaving a record of the change (i.e., an audit trail) in the system. This could allow a shortage or inappropriate adjustment to go undetected.

We also noted that Camp staff do not always timely inspect, count, and match items received to receiving reports and purchase requests/orders. Instead, staff often temporarily store items in a room until someone is available to count and inspect them. To improve accountability, items received should be inspected, counted and matched to the receiving report immediately upon receipt.

Recommendations

Probation management ensure:

18. **Perpetual inventory records are maintained and updated timely as additions and deletions occur.**

19. **Required physical inventory counts are conducted at least annually.**

20. **The ability to change inventory system information is limited to a few employees and the system is modified to track all manual changes, including the identity of employees making the changes.**

21. **Staff inspect, count, and match items received to receiving reports immediately upon receipt.**

Portable Assets

Portable assets are items that can be easily carried or moved that cost $5,000 or less. CFM Section 6.8.2 requires departments to complete a physical inventory of all portable assets at least annually. Departments are also required to have a list of all portable assets, including the item description, serial number, property tag number, and the person responsible for the item, etc. Departments need to update the listing on a regular basis for items acquired and disposed.

Probation has not conducted an annual physical inventory of the portable assets at the halls in over four years. Although the Department conducted an annual physical inventory at the camps, we noted a number of deficiencies in how the Department completed its inventory and managed its portable assets inventory. For example:

- The Department's portable assets list (list) is not complete. We noted that many portable items purchased by the camps were not included on the listing or assigned a property tag. It appears the camps do not always notify the Asset Management Section (AMS), responsible for maintaining the listing, when they purchase portable items. As a result, the Department's annual inventory was limited to the items reported to AMS.

- The list does not indicate the person responsible for the items, and the descriptions do not contain sufficient details. For example, a television on the listing did not indicate the size or brand.

- The Department deletes items that cannot be accounted for from the inventory listing without following proper procedures (e.g., notifying appropriate managers, obtaining police reports, etc). AMS sends a list of missing items to the camp directors to investigate (i.e. disposed, missing, stolen), and once a response is received, AMS deletes the items from the inventory listing. The Department needs to ensure that missing items are thoroughly investigated and management approval is obtained before deleting the items from the list.

Recommendations

Probation management ensure:

22. **The portable equipment listing is complete and up-to-date with all required information.**

23. **All portable assets have a tag number.**

24. **A physical inventory, using a complete portable equipment listing, is conducted at least annually at all locations.**

25. **All locations notify the Asset Management Section immediately when portable assets are purchased, so the items can be added to the portable assets inventory list.**

26. **All missing/stolen items are reported to management, thoroughly investigated, and reported to the appropriate law enforcement when the value exceeds $400, before removing the items from the portable asset listing.**

Internal Control Certification Program

The Auditor-Controller developed the Internal Control Certification Program (ICCP) to assist County departmental managers in evaluating and improving internal controls in all fiscal areas, thereby reducing the risk of error, fraud and other improper activities. Under the ICCP, County departments are required to periodically review and evaluate controls in key areas and certify that proper controls are in place or note that action is being taken to correct any deficiencies or weaknesses noted.

Probation's FY 2007-08/2008-09 ICCP certifies that the Department has appropriate procurement and payment controls in the areas where we noted deficiencies. Probation should ensure that the ICCP questionnaires are completed accurately.

Recommendation

27. **Probation management ensure that the ICCP questionnaires are accurately completed by qualified staff independent of the function for all applicable assessable units, that all weaknesses are identified, and that an improvement plan is developed to address each weakness.**

ATTACHMENT

COUNTY OF LOS ANGELES
PROBATION DEPARTMENT

9150 EAST IMPERIAL HIGHWAY – DOWNEY, CALIFORNIA 90242
(562) 940-2501

DONALD H. BLEVINS
Chief Probation Officer

August 27, 2010

To: Wendy L. Watanabe
Auditor-Controller

From: Donald H. Blevins
Chief Probation Officer

Subject: **PROBATION DEPARTMENT'S RESPONSE TO PROCUREMENT REVIEW (PHASE I)**

Attached is the Probation Department's response to the recommendations contained in your Office's review of the Department's Procurement Operations. We generally agree with the recommendations and have either implemented or initiated implementation of the recommendations. Any violation of the County's procurement policies by Departmental employees will result in appropriate disciplinary action.

We appreciate the opportunity to include our response with your report and the professionalism in which your staff conducted their review.

Please contact me if you have any questions, or your staff may contact DeWitt Roberts, Acting Deputy Director, Administration, at (562) 940-2516.

DHB:CCR:DR:mo

Attachment

c: Chief Executive Officer
Internal Services Department

ATTACHMENT

COUNTY OF LOS ANGELES PROBATION DEPARTMENT'S RESPONSE TO AUDITOR-CONTROLLER'S PROCUREMENT REVIEW (PHASE I)

AUDITOR-CONTROLLER RECOMMENDATION - #1

Ensure that all unauthorized credit cards have been terminated.

Response - **Agree**

This recommendation is implemented. Beginning in November 2009, the Department began identifying and canceling all known credit cards and credit accounts. On June 25, 2010, the Chief Executive Office (CEO) issued a memo to all County departments requiring the cancellation of all unauthorized credit cards and credit accounts. During July 2010, the Department's Procurement staff performed a follow-up review to determine whether any additional unauthorized credit cards or credit accounts existed. This subsequent review identified two vendor "sub-accounts" that were immediately cancelled. These accounts had no purchasing activity.

To help ensure compliance with the CEO's directive, all Management Services Bureau staff were required to complete an acknowledgement form indicating that staff have read and understand the CEO's directive prohibiting the use of unauthorized credit cards and credit accounts. Any violation of the CEO's directive will result in disciplinary action.

AUDITOR-CONTROLLER RECOMMENDATION - #2

Review all purchases made with the unauthorized credit cards, and take appropriate action with employees who made/approved inappropriate purchases.

Response - **Agree**

This recommendation is partially implemented. A Sheriff's investigation is currently being conducted to review purchases made with unauthorized credit cards and credit accounts. Disciplinary action will be taken against employees determined to have made/approved inappropriate purchases.

AUDITOR-CONTROLLER RECOMMENDATION - #3

Locate items purchased with the credit cards and ensure appropriate items are added to the Department's asset inventory.

Response - **Agree**

This recommendation is fully implemented. Of the 92 items we identified that were purchased with credit cards or credit accounts, 40 (43%) were located and added to the Department's asset inventory list. The remaining 52 (57%) items were not located and were reported to local law enforcement in July 2010 as lost/stolen.

AUDITOR-CONTROLLER RECOMMENDATION - #4

Ensure all purchase requests have detailed descriptions of the items to be purchased.

Response - **Agree**

This recommendation is implemented. In April 2010, the Department received assistance from the Internal Services Department (ISD) in modifying Probation's "Procurement Request Form." The modification ensures that procurement staff obtains a detailed description of items to be purchased prior to placing procurement orders. Procurement Request Forms that do not contain a detailed description are returned to the requestor with a cover memo specifying the information required to process the request.

AUDITOR-CONTROLLER RECOMMENDATION - #5

Consider centralizing the camp procurement functions.

Response - **Agree**

This recommendation is implemented. Effective July 1, 2010, all camp procurement functions were centralized and staff reassigned to Downey headquarters. This will ensure greater supervisory oversight of the Department's procurement policies and procedures.

AUDITOR-CONTROLLER RECOMMENDATION - #6

Obtain price quotes as required by County purchasing policies and justify all no-bid purchases in sufficient detail.

Response - **Agree**

This recommendation is implemented. In March 2010, the Procurement Supervisor provided training to all procurement staff on County purchasing policies. In addition, the Procurement Supervisor issued a unit memo detailing the process for obtaining and documenting vendor price quotes.

Staff are now required to obtain a faxed or e-mailed bid response from all non-agreement vendors and to attach the responses to each bid request. Vendors that do not respond to the bid request will be documented on the non-agreement quote sheet. All documentation will then be packaged and forwarded to the Procurement Supervisor for review and approval prior to a purchase order being issued. Violation of this policy will result in appropriate disciplinary action.

AUDITOR-CONTROLLER RECOMMENDATIONS - #7 and #8

Process non-agreement purchases in excess of the Department's delegated purchasing authority of $5,000 through ISD.

Do not split purchases to circumvent the Department's delegated purchasing authority.

Response - **Agree**

These recommendations are implemented. In March 2010, the Procurement Supervisor provided training to all procurement staff on County purchasing policies, which included the processing of non-agreement purchases in excess of $5,000 through ISD. The training also included a discussion on the County's policy that prohibits the splitting of purchase orders to remain under the Department's delegated purchasing authority of $5,000. In April 2010, the Procurement Supervisor began reviewing and approving all non-agreement purchases that exceed $1,500. Since implementation, the Procurement Supervisor has not identified any splitting of purchase order violations.

In May 2010, the Procurement Director, Procurement Supervisor, and nine of the 10 procurement staff attended a two-day ISD training class on the eCAPS requisition process. This class also included a discussion on the processing of non-agreement purchase orders in excess of the Department's delegated purchasing authority through ISD.

Violation of the County's policy regarding the processing on non-agreement purchase orders through ISD will result in appropriate disciplinary action.

AUDITOR-CONTROLLER RECOMMENDATION - #9

Review vendor agreements, make purchases from the appropriate source (i.e. agreement or non-agreement vendor), use the correct PO's, and ensure all agreement purchases receive agreement prices.

Response - **Agree**

This recommendation is implemented. Beginning in July 2010, Procurement staff was required to list the ISD agreement number, agreement prices, and agreement expiration date on all agreement vendor purchase orders. The Procurement Supervisor will conduct random samplings to ensure compliance. Violations will result in appropriate disciplinary action.

AUDITOR-CONTROLLER RECOMMENDATION - #10

Monitor frequently purchased non-agreement items and notify ISD of the potential for establishing vendor purchasing requirements.

Response - **Agree**

This recommendation is implemented. The Probation Department will continue to monitor items purchased on a frequent basis to determine the potential for establishing additional commodity agreements through ISD.

AUDITOR-CONTROLLER RECOMMENDATION - #11

Require Accounts Payable staff to match invoices with purchase orders and receiving reports prior to paying vendors.

Response - **Agree**

This recommendation is implemented. In July 2010, the invoice matching process was reassigned to the Department's Fiscal Services (Accounts Payable) to match invoices with purchase orders and receiving reports prior to vendor payments being processed. Fiscal management will be required to perform periodic reviews to ensure compliance.

AUDITOR-CONTROLLER RECOMMENDATION - #12

Probation management ensures vendors are paid within 30 days.

Response - **Agree**

This recommendation is being implemented. The reassigning of the three-way invoice match and vendor payment process to the Department's Fiscal Service section will strengthen this mandate as the Procurement section has notified vendors to forward invoices for payment directly to Fiscal Services. Additionally, on a daily basis, Procurement will forward invoices, packing slips/proof of delivery and the original copy of purchase orders to Fiscal Services.

This recommendation will be fully implemented with the identification of additional staffing to assist with the reassignment of the three-way match process to Fiscal Services.

AUDITOR-CONTROLLER RECOMMENDATION - #13

Probation management ensures Fiscal Services Section mark invoices "paid" to prevent reuse.

Response - **Agree**

This recommendation is implemented. As noted in Recommendation #12 above, the matching of invoices, purchase orders, and packing slips was reassigned to the Fiscal Services Section. In July 2010, Fiscal Services accounts payable staff were reminded to mark all invoices "paid" to prevent the possibility of duplicate vendor payments. Fiscal management will be required to perform periodic spot checks to ensure compliance.

AUDITOR-CONTROLLER RECOMMENDATION - #14

Evaluate the camps food cost.

Response – **Agree**

This recommendation is being implemented. In July 2010, the Probation Department conducted a review of the Food Menu Production Reports to establish a baseline for calculating food costs based on juvenile populations and Probation staffing at each facility. The Department worked with Auditor-Controller staff to determine that the original cost-per-meal calculation was based exclusively on juvenile population.

The Department conducted a separate food cost analysis that incorporated juvenile population, departmental staffing and actual food purchases. While conducting the subsequent analysis, the Department identified causes for the differences in food costs including: 1) variations in camp facility juvenile populations, 2) comparing food costs with camps that house female minors vs. camps that house male minors participating in the sports program, 3) the sports camp is required to purchase additional food and beverage items for minors' use while participating in various sports activities, 4) variation in the number of special diets per juvenile camp facility, and 5) food orders being based on the maximum population at each facility.

On June 1, 2010, the Department hired a Food Services Consultant. The Food Services Consultant has been tasked to work on several critical assignments, including the National School Lunch Program audit, the

Food Service Plan to meet Title 15 guidelines and standards, conducting a nutritional menu analysis, and developing medical diet manual and sample menus and instructions for medical diets. In September 2010, the Food Services Consultant will begin working on standardizing the food orders.

In the interim, to better ensure food purchases are in line with population and consumption at each juvenile camp facility, the Department has implemented a new formula to purchase food based on a two-week average daily juvenile population and data from the camps food production records.

AUDITOR-CONTROLLER RECOMMENDATION - #15

Evaluate contracting out for food service at the camps.

Response - **Agree**

Implementation of this recommendation is in progress. The Probation Department will conduct a Prop. A analysis to determine the feasibility of contracting out food service at all camps by June 2012.

AUDITOR-CONTROLLER RECOMMENDATIONS - #16, #17, and #18

Develop and implement standardized procedures for ordering, inventorying and monitoring camp food purchases and usage.

Review Camp food purchases and inventory records to ensure purchases and usage are reasonable.

Perpetual inventory records are maintained and updated timely as additions and deletions occur.

Response - **Agree**

The Department is implementing these recommendations. As noted above, in July 2010, Probation Department's Food Services Consultant began reviewing the Food Menu Production Reports to establish a baseline for calculating food costs based on juvenile populations and Probation staffing at each facility. The Food Services Consultant will also be responsible for standardizing the food menu.

Also in July 2010, the Department piloted an inventory tracking system at camps Scott and Scudder. All inventory additions and deletions are recorded in this inventory tracking system, which will enable management to monitor food costs and usage to determine their reasonableness. The Department's Management Services Bureau will be responsible for

ensuring the system is kept current and monitoring the reasonableness of food costs and usage. In August 2010, the remaining camps began utilizing the inventory tracking system to record all incoming and used commodities.

AUDITOR-CONTROLLER RECOMMENDATION - #19

Required physical inventory counts are conducted at least annually.

Response - **Agree**

This recommendation is being implemented. In conjunction with the Department of Human Resources and the Department of Public Works, the Probation Department plans to complete a physical inventory of capital and non-capital assets by December 31, 2010.

AUDITOR-CONTROLLER RECOMMENDATION - #20

The ability to change inventory system information is limited to a few employees and the system is modified to track all manual changes, including the identity of employees making the changes.

Response - **Agree**

This recommendation is being implemented. Effective August 2010, management will utilize data that is currently available on the Barscan system to generate a report that provides the staff's identity and tracks their manual changes to the inventory system. The ability to make manual changes will be limited to a few employees.

Effective September 2010, Probation's Management Services Bureau will begin monitoring all manual changes to the camps' inventory by conducting monthly documented audits. These audits will focus on comparing current inventory databases with the location's actual physical inventory. Management will verify the appropriateness of any reported or unreported changes to the inventories. For those non-compliant occurrences, appropriate disciplinary action will be taken.

The Department will fully implement e-Procurement in FY 2011-12. This system is designed to track all inventory changes and obtain the required supervisory approvals electronically.

AUDITOR-CONTROLLER RECOMMENDATION - #21

Staff inspects, count, and match items received to receiving reports immediately upon receipt.

Response - **Agree**

This recommendation is being implemented. By August 31, 2010, all camp operations will have their inventory stock tracked through an inventory management database. Staff will be responsible for inspecting, counting, and matching items received, and updating the database within 24 hours of inventory delivery. Periodic reviews will be conducted to ensure compliance.

AUDITOR-CONTROLLER RECOMMENDATIONS - #22, #23, and #24

The portable equipment listing is complete and up-to-date with all required information.

All portable assets have a tag number.

A physical inventory, using a complete portable equipment listing, is conducted at least annually at all locations.

Response - **Agree**

These recommendations are being implemented. As noted above in conjunction with the Department of Human Resources and the Department of Public Works, the Probation Department plans to complete a physical inventory of capital and non-capital (portable) assets by December 31, 2010. As part of this process, the Department will ensure each non-capital asset has an inventory tag number and that the Department's non-capital asset listing is complete and up-to-date.

AUDITOR-CONTROLLER RECOMMENDATION - #25

All locations notify the Asset Management Section immediately when portable assets are purchased, so the items can be added to the portable assets inventory list.

Response - **Agree**

This recommendation is implemented. In April 2010, the Department received assistance from ISD in modifying the Department's "Procurement Request Form". The revised form now requires procurement staff to notify the Asset Management Section immediately when capital assets are

purchased. The revised "Procurement Request Form" is a part of a Departmental Directive that will be released in August 2010. Management will conduct random audits to ensure compliance.

AUDITOR-CONTROLLER RECOMMENDATION - #26

All missing/stolen items are reported to management, thoroughly investigated, and reported to the appropriate law enforcement when the value exceeds $400.00, before removing the items from the portable asset listing.

Probation Response - **Agree**

This recommendation is implemented. An investigation was conducted to determine the location of all items (92) in question. The Department located 40 (43%) of the missing items. The Department contacted local law enforcement and filed a police report for the 52 (57%) items that could not be located.

AUDITOR-CONTROLLER RECOMMENDATION - #27

Probation management ensures that the ICCP questionnaires are accurately completed by qualified staff independent of the function for all applicable assessable units, that all weaknesses are identified, and that an improvement plan is developed to address each weakness.

Probation Response - **Agree**

This recommendation is implemented. In the future, Probation's Quality Assurance Section staff, not Procurement staff, will be responsible for accurately completing the ICCP questionnaires for all applicable assessable units and ensuring all weaknesses are identified, and that improvement plans are developed to address noted weaknesses.