Travis County Pretrial Services
Report of Findings and Recommendations
#13-15

March 13, 2014

TRAVIS COUNTY
AUDITOR'S OFFICE

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March 13, 2014

Irma Guerrero
Division Director, Pretrial Services

RE: Examination of the Pretrial Services

Scheduled as part of our statutory requirements, particularly those in Section 115 of the Local Government Code, the (REC) Risk Evaluation and Consulting Division of the Travis County Auditor's Office has completed an examination of the Travis County Pretrial Services. We conducted our examination in accordance with the applicable statutes governing the County Auditor's Office and those relating to County financial and accounting protocols. As a result of our examination, we are providing this report on our findings and recommendations.

BACKGROUND

The Travis County Pretrial Services is affiliated with the Travis County Adult Probation Department and was established in the late 1960's with the assistance of many local criminal justice groups and organizations. Pretrial Services is a county-funded department under the authority of the District Judges. It assists in the release and supervision of defendants prior to case adjudication while providing counselling and monitoring for these defendants.

SCOPE OF EXAMINATION

This examination included a limited assessment of the adequacy and effectiveness of the overall system of internal controls in place for Pretrial Services during the period April 1, 2013 to June 30, 2013. The scope of this examination included documenting the office processes as well as evaluating the controls in place for revenue assessment, cash handling, and refunds. In addition, we verified fixed assets and reviewed the adequacy of controls in place for information systems.

EXAMINATION METHODOLOGY

Our work was based on applying sampling procedures to office records and on verbal and written representations from this office. Sampling relates to examining, on a test basis, evidence supporting the amounts and disclosures in the financial records and statements. The use of sampling techniques would not necessarily disclose all matters in Pretrial Services' financial statements, financial records, and financial controls that might be material weaknesses or misstatements. In regards to the written and verbal representations made by this office, unless otherwise noted in this report, office management maintains that the assertions we relied upon in the examination were correct to the best of their knowledge.

SUMMARY OF FINDINGS

We noted the following:

- Bank reconciliations did not include the preparer's signature and the date prepared, nor was there evidence these schedules were reviewed by management.
- Overpayment refunds processed in the FACTS System but not yet issued to the refund recipients were not recorded on the monthly financial statements.
- Unclaimed refunds greater than three years old were not remitted to the State Comptroller and Travis County Treasurer as required by statute.

SUMMARY OF RECOMMENDATIONS

We recommended that Pretrial Services implement a review process for bank reconciliations and that the preparation and review of these schedules be documented. We also recommended that Pretrial Services implement a refund process whereby entries in the FACTS System are simultaneously processed when refund checks are prepared. Pretrial personnel should also transfer unclaimed refunds over three years old to the State Comptroller or the Treasurer as unclaimed property as directed by statute.

OVERVIEW OF RESPONSES BY MANAGEMENT TO NOTED FINDINGS

Overall, Pretrial Services agreed with the findings of this examination and is actively working on an action plan to alleviate them. Specifically, Pretrial Services staff will sign and date the bank reconciliation when prepared and reviewed, refund checks will be written and issued to the defendant as soon as the refund is processed in the system, and older undisbursed refunds will be remitted to the proper parties.

ATTACHMENTS

Attachment A: Details of our findings, our recommendations, and management's responses to these issues can be found in Attachment B.

Attachment B: Copies of the Pretrial Services' financial statements for June 30, 2013, are provided in Attachment B. These financial statements have not been audited by Travis County's external auditors.

EXAMINATION TEAM

Lisa Denton, Senior Auditor
Vanessa Robles, Lead Auditor

CLOSING

This report is intended solely for the information and use of Pretrial Services staff. We greatly appreciate the cooperation and assistance received from the management and staff of the Travis County Pretrial Services during this examination. Please contact us if you have any questions or concerns regarding this report.

David Jungerman
Manager – Risk Evaluation and Consulting Division

Patti Smith
First Assistant County Auditor

Nicki Riley
Travis County Auditor

REPORT DISTRIBUTION

Charles Robinson, CSCD Director
Managers, Travis County Auditor's Office
Examination File

ATTACHMENT A – DETAILED FINDINGS

Finding #1: Bank Reconciliation Protocols

During our review of Pretrial Services' operating account bank reconciliations, we noted that the preparer of the reconciliation did not sign or date this schedule. In addition, there was no documentary evidence that the bank reconciliations were reviewed by management.

Significance:

Bank reconciliations are one of the most important internal controls over cash. The reconciliation process allows accounting personnel and management to verify that all cash collected and disbursed per the office accounting records actually was received and paid by the bank. This helps ensure the accuracy of the cash balance and safeguard County funds from loss or misappropriation. By signing and dating the bank reconciliations upon completion, the preparer expresses accountability for the reconciliation and documents the timeliness with which it was completed. Documented supervisory review of the bank reconciliations documents management's verification that these schedules are properly prepared and that reconciling items are reasonable.

Recommendations:

Bank reconciliations should be reviewed by office management to help ensure that they are properly prepared. The reviewer should verify that the bank reconciliation is accurate and that it ties to the applicable supporting documents. They should also verify that reconciling items clear in a timely manner and are listed correctly on the bank reconciliation. In addition, the preparer and reviewer should sign and date all bank reconciliations upon completion.

Management Response:

Pretrial Services has reviewed the report and is actively making the necessary adjustments to rectify the noted concerns.

Action Plan: Bank Reconciliations should be reviewed and signed by office management and preparer.

- What actions or changes will occur
  - Monthly bank reconciliations will be reviewed by the office manager. Preparer and reviewer will sign and date all bank reconciliations.
- Who will carry out these changes
  - The Financial Analyst will ensure that all monthly bank reconciliations will be reviewed and signed.
- Implementation Date
  - The action above will be implemented starting with the December 2013 bank statement.

Finding #2: Accounting for Refunds Payable

During the examination period, it was Pretrial Services' policy to create an accounting entry in both the office financial records and in the FACTS court system at the time an overpayment was discovered on a defendant's case. This entry included a credit to the cash account and a debit to

the refunds payable account. This entry simulated the issuance of a refund check to the defendant. However, no actual refund check was created when this occurred. Instead, a letter was sent to the defendant informing them that an overage existed and how to claim their funds. A refund check was not issued until the defendant properly claimed the refund.

In order to reconcile the office cash account, each undisbursed refund was added to the outstanding check register. These items were only cleared from the outstanding check register when a check actually issued for the overpayment cleared the bank. Because many undisbursed refunds were not claimed by defendants, the number of these items on the outstanding checks register continued to grow. As of June 30, 2013, the outstanding checks register included 274 of these undisbursed refunds payable totaling $3,378.83. This included $1,921.23 of undisbursed funds over three years old.

Significance:
These undisbursed refunds do not represent actual refunds, as the checks have not been issued; therefore, the cash and refunds payable accounts are both understated by the amount of undisbursed refunds improperly recorded. In addition, the outstanding checks register is overstated by the same amount. This has also led to Pretrial Service's monthly financial statements being understated for these items.

In regards to un-disbursed refund checks over three years old, the Texas Property Code requires that unclaimed property with a value of over $100 that has gone unclaimed for over three years be remitted to the State Comptroller, and items of $100 or less be remitted to the Treasurer's Office.

Recommendations:
We recommend that Pretrial Services cease the practice detailed above and make correcting entries to the applicable financial records and schedules for the items that have already been recorded.

Management Response:
Action Plan: Refund entries should not be processed in the FACTS system unless check is written and issued to the defendant.

- What actions or changes will occur
  - Refunds checks will be written and issued to the defendant as soon as the refund is processed in the FACTS system.
- Who will carry out these changes
  - The Financial Analyst will ensure that all refund checks are written and issued to the defendant as soon as the refund is processed.
- Implementation Date
  - The action above has been implemented effective 10/31/13.

Action Plan: Outstanding checks and undispersed overpayment refunds over 3 years old should be transferred to the State Comptroller or the County Treasurer.

- What actions or changes will occur
  - All outstanding checks and undispersed overpayment refunds will be reclassified or transferred to the State of Texas or County Treasury.

- Who will carry out these changes
    - The Financial Analyst will ensure all outstanding checks and undispersed overpayment refunds will be processed.
- Implementation Date
    - The action above will be completed by the end of February 2014.

Travis County Pretrial Services
Statement of Fiduciary Assets and Liabilities
Agency Fund
6/30/2013

Assets

Cash	$ 2,854
Total assets	2,854

Liabilities

Due to other government entities	2,530
Other liabilities	324
Total liabilities	2,854
Net Assets	$ -

NOTE: The express purpose of presenting this financial statement and the appropriate findings is to comply with applicable local government code statutes and to provide internal control feedback to Travis County officials. Travis County's external auditors have completed the audit of the County's basic financial statements for the 12 months ended September 30, 2013. This statement is included in the scope of that audit.