

**Internal Audit Report on  
Drug Court Program  
Money Receipts and Expenditures  
FY15 and FY16**

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**County of Henrico**



*Proud of our progress;  
Excited about our future*

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**Internal Audit Report #262  
May 5, 2017**  
HENRICO COUNTY INTERNAL AUDIT  
<http://henrico.us/audit>  
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# Internal Audit Report on Drug Court Program Money Receipts and Expenditures FY15 and FY16




Report #262  
May 5, 2017



## Summary


- Scheduled Audit
- Conclusions on Audit Objectives:
  - Controls need improvement related to:
    - Money Receipts**
      - ▲ Determine controls exist and are operating effectively to ensure money receipts are properly accounted for, recorded, deposited in tact and promptly
      - ▲ Determine that controls exist to safeguard money receipts.
      - ▲ Determine compliance with agency money receipts policies and procedures.
    - Expenditures**
      - ▲ Determine controls exist and are operating effectively to ensure compliance with policies and procedures over personnel and non-personnel expenditures including travel
      - ▲ Determine that controls exist over fixed assets, inter-departmental transfers and agency head transactions (i.e. to ensure proper approval)
- Exception Oriented
- 7 Reportable Issues and 2 Other Observations
- Control Improvements Implemented during the Audit
- Management Action Plans have been developed to address all risks identified

● Insufficient-Immediate Attention    
 ▲ Improvement Needed    
 ■ Sufficient




## Contents

- Introduction and Background
- Scope, Objectives and Methodology
- Conclusions on Audit Objectives
- Issues and Management Action Plans
- Implementation of Control Improvements
- Closing and Report Distribution




3



## Introduction

- Auditor III Joyce Aikor-Richardson performed audit work
- Used professional auditing standards
- Examined controls & tested for selective compliance
- All exceptions given to Agency
- Reported control design issues & significant test exceptions
- Work for same Government we audit



4



## Background

The Drug Court Program was initiated in January of 2003. The Drug Court provides intense supervision and treatment, frequent judicial reviews, mandatory drug testing, graduated sanctions, aftercare, and other rehabilitative services to nonviolent, substance abusing offenders for a minimum of twelve months, with the average participation lasting eighteen months.

There are up to forty new participants placed in the program each year that have their progress closely monitored and evaluated by program staff.

5

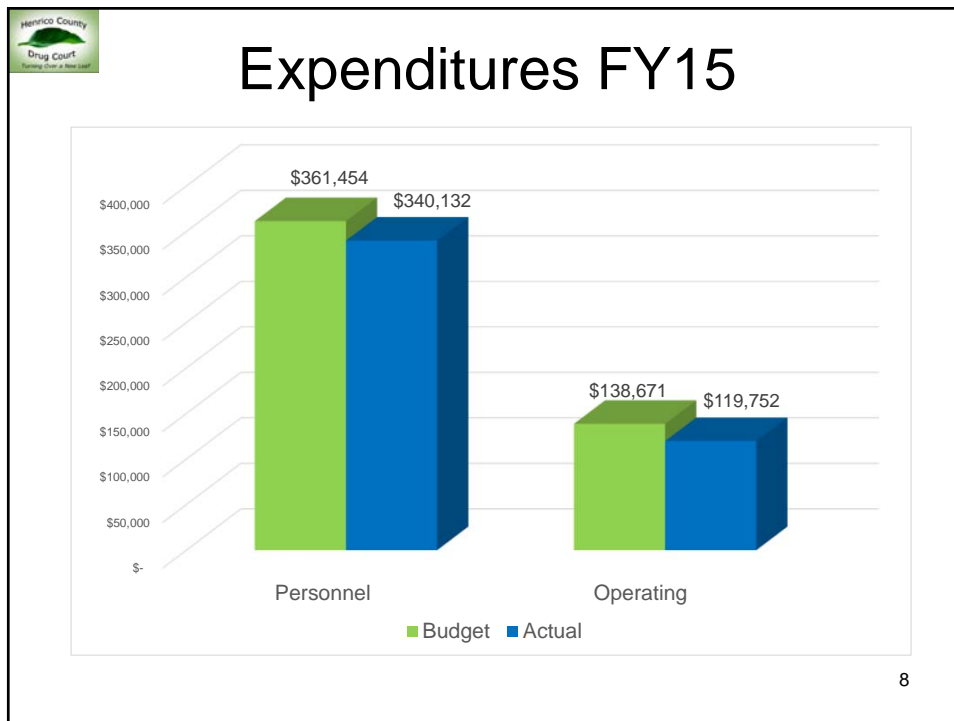
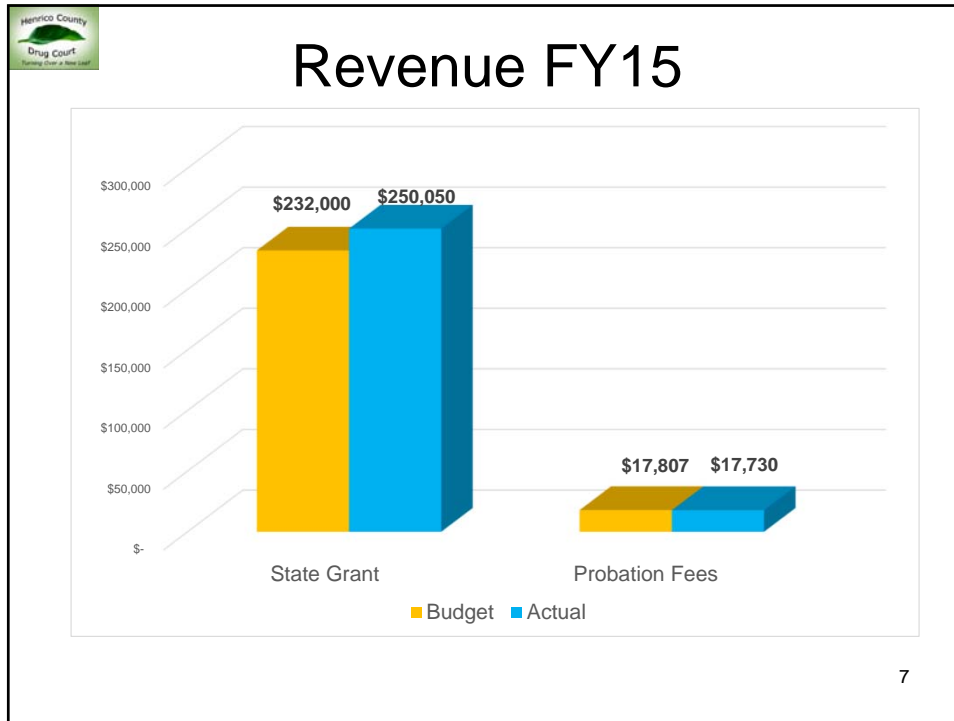


## Budget Highlights

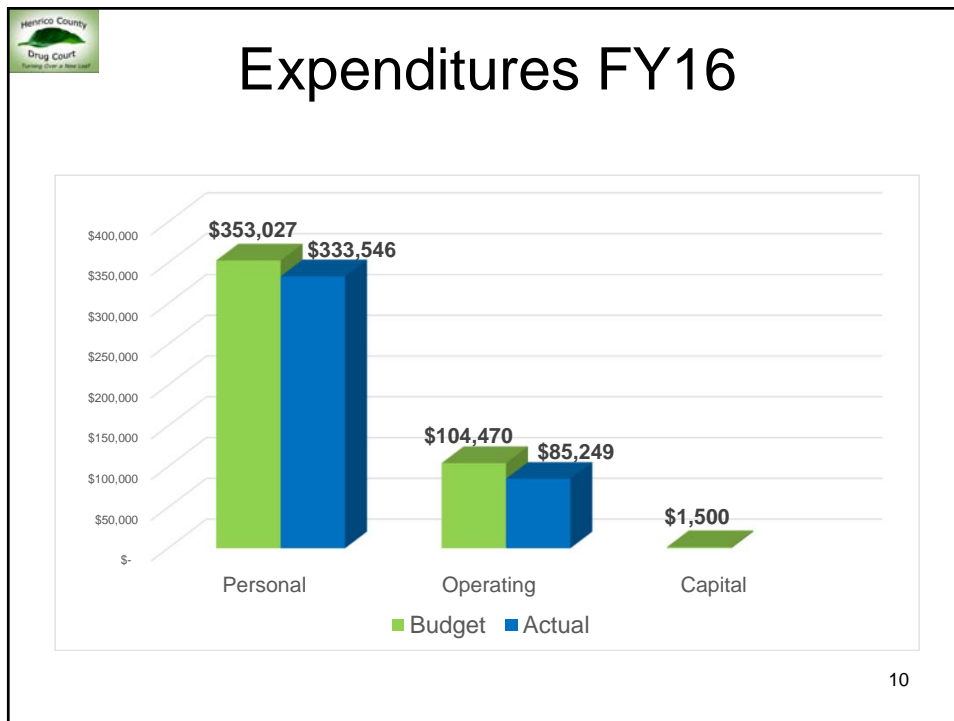
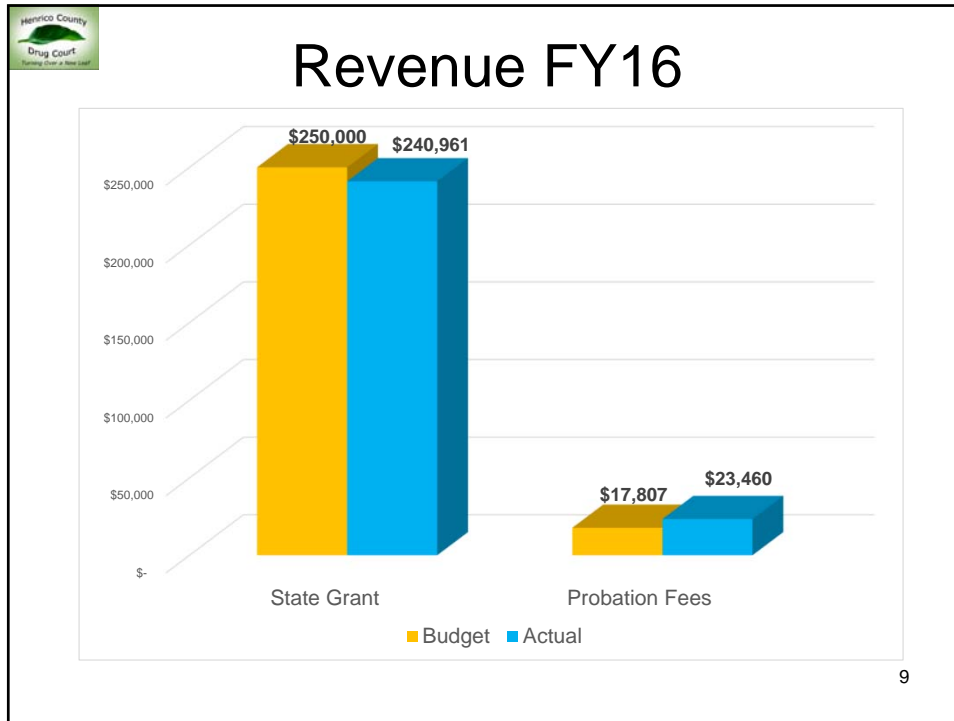
- The Drug Court Program will complete its thirteenth year of operations in FY2015-16. Caseloads continue to increase as new cases are constantly added. The program was started with the use of federal funding. However, federal funds were discontinued in FY2005-06.
- The Drug Court program for Henrico County received a grant from the State in the amount of \$232,261 in FY2005-06 to support the program and replace the discontinued federal funding. It is anticipated that funding from the Virginia Supreme Court, which administers these grants will be \$250,000 in FY2016-17.
- The requirement for General Fund support in FY2016-17 is budgeted to be \$157,069, an increase of \$7,706, or 5.2 percent, above the amount in the 2015-16 Approved Budget.
- The Drug Court also collects probation fees to help defray the costs of the program. The program is expected to receive \$21,600 in fee revenues during FY2016-17.

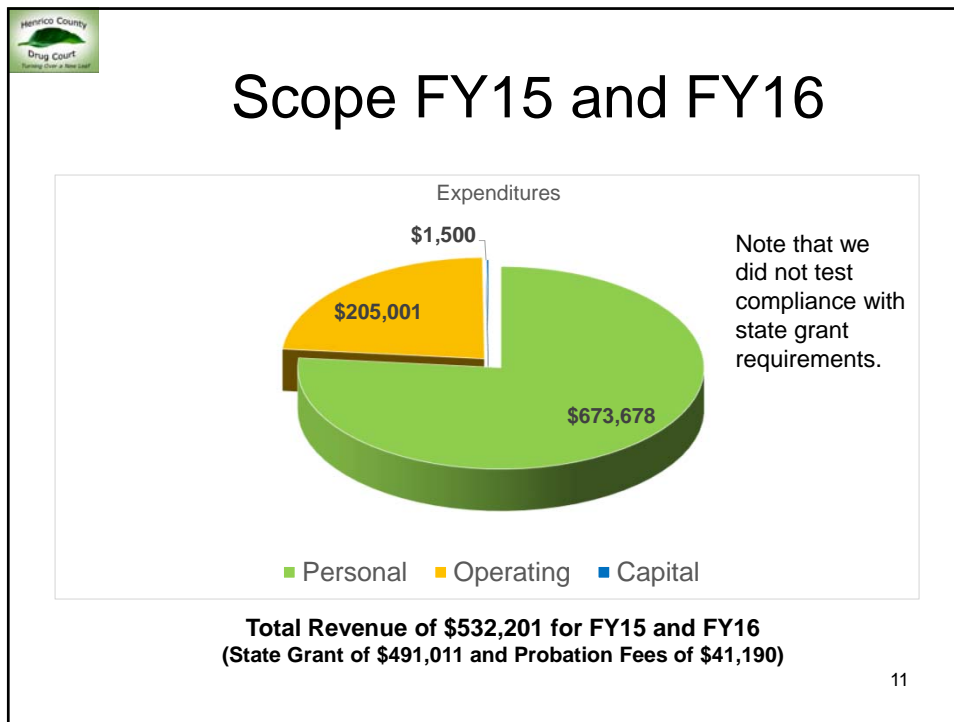
6

**County of Henrico  
Internal Audit Report #262  
Drug Court Program-Money Receipts and Expenditures - FY15 & 16**




**County of Henrico  
Internal Audit Report #262  
Drug Court Program-Money Receipts and Expenditures - FY15 & 16**







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- ### Internal Controls Objectives
- Reliability and integrity of information
  - Compliance with policies, procedures, laws and regulations
  - Safeguarding of assets
  - Effectiveness and efficiency of operations
- 
- 12

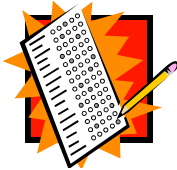
 **Internal Controls Cont'd**  
*General Limitations of any Controls*


- Errors and irregularities may go undetected
- Inherent limitations in any control structure
- Limitations include resource constraints, legislative restrictions, etc.
- Projection to future subject to risk of change in effectiveness
- Compliance may deteriorate

 13

 **Audit Methodology**

- Determined expenditure-related processes and control procedures
- Evaluated strengths and weaknesses of control procedures
- Randomly sampled recorded transactions and traced to supporting documents for accuracy and compliance with policy
- Randomly sampled capital assets and verified existence

 14




## Conclusions on Audit Objectives

<i>Money Receipts</i>		
Rating	Audit Objectives	Issues/Other Observations Identified
▲	Determine that controls exist and are operating effectively to ensure money receipts are properly accounted for, recorded, deposited in tact and in a timely manner.	Issues 1, 2, 3, and 5
▲	Determine that controls exist to safeguard money receipts.	Issue 3
▲	Determine compliance with agency money receipts policies and procedures.	Issue 2

● Insufficient-Immediate Attention    
 ▲ Improvement Needed    
 ■ Sufficient

15



## Conclusions on Audit Objectives (Cont.)

<i>Expenditures</i>		
Rating	Audit Objectives	Issues/Other Observations Identified
▲	Determine controls exist and are operating effectively to ensure compliance with policies and procedures for non-personnel expenditures including travel	Issues 4 and 6, Other Observations 1 and 2
▲	Determine that adequate controls exist over fixed assets, inter-departmental transfers and agency head transactions (i.e. to ensure proper approval)	Issue 7

● Insufficient-Immediate Attention    
 ▲ Improvement Needed    
 ■ Sufficient

16



## Issues

1. Money was not Received from Some Participants
2. Money Orders were not Deposited Timely
3. No Controls over Sanction Fees Collected
4. No Inventory to Account for Incentive Rewards Purchased
5. Missing PIV Book for One Month and Unreconciled Revenue
6. Limited Controls Existed in Bus Ticket Incentive Process
7. Agency did not keep Supporting Documents for Certain Transactions


17



## Other Observations

1. Review modified invoices to avoid duplicate payment
2. Ensure all travel is settled within 14 days of return


18



# Issue 1

## Money was not Received from Some Participants

19




*Issue 1*

# Condition

We found that some participants did not pay the required fee for each month of their active involvement during the periods covered in the audit. Additionally, the office did not maintain clear documentation to denote the reasons for non-payment when the reasons were known.

We estimate that \$21,400 was not collected based on the number of participants that were in the program for whom we did not see any payment received during the period audited.

20



*Issue 1*

### Effect

The program's operating costs are not being supported by the expected program revenue.


### Cause

Oversight - Lack of communication between units in CCP/Drug Court - CCP utilizing tax debt set off-Drug Court not using tax debt set off

### Criteria

Drug Court Manual: Correction Deputy "Collects and monitors payment of fees for all participants"

21




*Issue 1*

## Recommendations

1. The person responsible for receiving probation fees should clearly document participants that did not pay the monthly fee and the reason the participant did not pay.
2. The office should evaluate whether alternative collection options (e.g. debt set-off, etc.) are applicable and appropriate for the program's unpaid fees.
3. The office should evaluate whether the state's MIS system which tracks program participants has efficient, easy-to-use payment documentation capabilities that would facilitate the office's tracking and collection processes as an alternative to their current Excel documentation.

22




*Issue 1*

## Management's Action Plan

Action Plan	Action Plan Owner	Completion Date
1.1 A spreadsheet will be maintained listing all participants and all payments or reason for non-payment. The Drug Court Administrator will review this spreadsheet monthly for accuracy. Review	Sheriff's Investigator/Drug Court Administrator Drug Court Administrative Assistant	July 1, 2017
1.2 A spreadsheet will be maintained listing all participants who owe Drug Court fees at the conclusion of their participation in Drug Court. The amount owed will also be maintained.	Drug Court Administrative Assistant	July 1, 2017
1.3 The participants who owe fees will be entered into the tax debt set off program. A spreadsheet will be created for the purposes of tracking these participants.	CCP Director/Drug Court Administrator	August 1, 2017
1.4 The MIS system will be evaluated in order to determine if payment documentation in the MIS system is a viable alternative to excel spreadsheets	Drug Court Administrator	August 1, 2017


23



## Issue 2

### Money Orders were not Deposited Timely

24




*Issue 2*

## Condition

Review of money orders received from participants revealed that some were taken to the Cashier's Office sometimes more than a month after receipt.

25



*Issue 2*

## Effect

Non-compliance with Finance policy. Receipts are not processed and recorded timely in the County's financial records.


## Cause

Oversight/Appropriate supervision of Drug Court Administrator to ensure current policies and procedures are current.

## Criteria

Inter-office Memorandum dated August 24, 1999 on PIV procedures, "A voucher must be prepared which indicates the amount and account or accounts credited. The Check or cash shall be deposited within three (3) working days of receipt. The properly coded PIV must then be delivered to the Cashier's Section within three (3) working days from the date of deposit. The Cashier's Section will then return the Validated (Stamped) PIV"

26




*Issue 2*

## Recommendations

Ensure money orders received are deposited within 3 days of receipt.

27




*Issue 2*

## Management's Action Plan

Action Plan	Action Plan Owner	Completion Date
2. Drug Court Personnel responsible for the collection of the program fees, will prepare fees for deposit by Thursday of each week. Deposits will be made every Friday at the Cashier's office.	CCP/Director/Drug Court Administrator	August 1, 2017


28



## Issue 3

### No Controls over Sanction Fees Collected

29




*Issue 3*

## Condition

- 1) Curfew violation fees were imposed and collected in cash without the use of a receipt book to document the audit trail and transfers of funds to the Cashier's Office. The cash collected sporadically between 2013 and 2017 was not deposited with the Cashier's Office or recorded in an official ledger or bank account. The funds were maintained in envelopes and folded paper that was transported between the Drug Court office and the courts.

The envelopes had inconsistent and unclear manual notations of program participant names, dates and amounts collected. \$180 was counted and validated against notations on the envelopes and papers. However, there were no sufficient independent records maintained to verify the completeness of the total collected and on hand. Court docket recap summaries were prepared to document the outcomes of participants' weekly court visits and while some of the imposed and collected violation fees were noted, this was not a consistent practice.

30




*Issue 3*

## Condition

2) There was no documentation of how this collection process worked in the office's operating manual.

31



*Issue 3*

### Effect

Potential for misappropriation of cash, though none was confirmed.


### Cause

Oversight/Appropriate supervision structure of Drug Court Administrator

### Criteria

Common money receipts practices require that money collected be documented through the use of a manual or systematic receipting process and that such receipts be reconciled to proper recording on the financial records.

32




*Issue 3*

## Recommendations

1. The CCP Director should work with the Judges to evaluate the imposition and collection of the violation fee revenue and other alternatives to such fee.
2. If the fee continues to be collected, the office should work with Finance's Treasury Division to develop an appropriate method for collection, recording, and transferring the collections for deposit. Consideration should be given to use of a receipt book, avoiding collection of cash, and segregating collection from recording and reconciling.
3. The processes and procedures for this activity should be documented in the Office's operating manual.
4. The CCP Director should work with the Budget Office and Judges to determine an appropriate disposition for the existing funds (e.g. where they should be deposited, recorded, and how they should be used to fulfill the purposes for which they were initially collected).

33




*Issue 3*

## Management's Action Plan

Action Plan	Action Plan Owner	Completion Date
3.1 The Drug Court will no longer impose a monetary curfew section and will not collect cash for any fee. This practice is effective immediately.	CCP Director	August 1, 2017
3.2 The CCP Director and the Drug Court Administrator will meet with the Drug Court Judges and the Budget office to determine the appropriate disposition of the existing funds	CCP Director/Drug Court Administrator	July 1, 2017


34



# Issue 4

## No Inventory to Account for Incentive Rewards Purchased

35




*Issue 4*

# Condition

The Supervisor purchased several gift cards and was reimbursed for those but we were unable to directly trace the gift cards to the program participants who received them. The department did not maintain an inventory tracking system to account for receipt and disposition of gift cards, movie tickets, and other donated items used as participant prizes.

In a rough comparison of purchases and donations to a listing of prize recipients compiled by the Office during the audit, it appeared that more items were distributed than were acquired during the years of Audit coverage.

36



*Issue 4*

### Effect

Potential for misuse of these cash equivalent items. We are unable to account for and verify that some of the gift cards were not taken for personal use.


### Cause

Oversight

### Criteria

Per the Drug Court Manual, "Treatment staff will also use incentives to recognize completion of assignments. Participants demonstrating progress and doing something new for themselves may draw for a prize from the basket (gift certificates or token prizes from local merchants, movie passes, etc.). Formal ceremonies will be held for graduation to recognize success."

37




*Issue 4*

## Recommendations

Agency should:

1. start documenting an inventory of gift cards, movie tickets purchased, and donations received and show the program participants that received them.
2. have the recipients sign a listing to acknowledge receipt of their prize to strengthen the departments record keeping.

38




*Issue 4*

## Management's Action Plan

Action Plan	Action Plan Owner	Completion Date
4.1 An inventory spreadsheet will be maintained for gift cards. The spreadsheet will list each individual gift card purchased and the participant who received the gift card. Drug Court Participants will sign and acknowledge the receipt of each gift card.	CCP Director/Drug Court Administrator	July 1, 2017
4.2 An inventory spreadsheet will be maintained for movie tickets. The spreadsheet will list each individual movie ticket purchased and the participant who received the movie ticket. Drug Court Participants will sign and acknowledge the receipt of each movie ticket.	CCP Director/Drug Court Administrator	July 1, 2017
4.3 An inventory spreadsheet will be maintained for bus tickets. The spreadsheet will list each individual bus ticket purchased and the participant who received the bus ticket. Drug Court Participants will sign and acknowledge the receipt of each bus ticket.	CCP Director/Drug Court Administrator	July 1, 2017


39



## Issue 5

### Missing PIV Book for One Month and Unreconciled Revenue

40



*Issue 5*

## Condition


Review of money orders received from participants for FY15 revealed that no sequentially numbered PIV receipt book was available for review for the month of February 2015 to show the money received, date, amount and the participants from whom the money was received. Additionally, some of the voided receipts for FY15 could not be found.

Furthermore:

- a deposit of \$425 was recorded in the General Ledger for the month of October 2014 which could not be explained;
- the recorded G/L balance for April 2015 was \$400 higher than the supporting documents; and
- the May 2015 balance was \$50 higher.

There was no internal reconciliation of the revenue accounts to validate their accuracy.

41



*Issue 5*


## Effect

Unable to verify fees received for the month of February 2015 and to fully account for entries in October 2014 and April 2015. Potential for amounts to be recorded incorrectly. Noncompliance with Commonwealth retention requirements.

## Cause

Oversight/Appropriate supervision structure not in place to ensure policies and procedures in place and consistent with practices.

42




*Issue 5*

## Criteria

Inter-office Memorandum dated August 24, 1999 on PIV procedures "A voucher must be prepared which indicates the amount and account or accounts credited. The Check or cash shall be deposited within three (3) working days of receipt. The properly coded PIV must then be delivered to the Cashier's Section within three (3) working days from the date of deposit. The Cashier's Section will then return the Validated (Stamped) PIV".

Additionally, Library of Virginia retention requirements for localities indicate that financial records related to accounts receivable (including receipt records) should be retained for 3 years after the end of the state fiscal year.

43




*Issue 5*

## Recommendations

Agency should maintain Accounting records that show money received, who money was received from, amount received and date.

Revenue account reconciliations should be documented to validate that the General Ledger accurately contains all expected and explainable revenue postings.

44




*Issue 5*

## Management's Action Plan

Action Plan	Action Plan Owner	Completion Date
5.1 Written policies and procedures will be created to document the process for issuing receipts and depositing all Drug Court Program fees.	CCP Director/ Drug Court Administrator	July 1, 2017
5.2 Written policies and procedures will be created for the retention of all financial information and documentation.	CCP Director/Drug Court Administrator	July 1, 2017
5.3 The Drug Court Administrator will perform a reconciliation process each month, to ensure that all collected Drug Court Program Fees match the amount deposited into the General Ledger Account	Drug Court Administrator/CCP Director	August 1, 2017


45



## Issue 6

### Limited Controls Existed in Bus Ticket Incentive Process

46




*Issue 6*

## Condition

Bus tickets are provided to program participants who are not working and need to use the bus system to get back and forth. The following was noted related to this program activity:

- 1) There was no written policy/procedure to guide the activity.
- 2) There was no formal mechanism to log the purchases, approve distribution, and reconcile distributed tickets.
- 3) Cash was used to purchase tickets although the department did not maintain a petty cash account.

47



*Issue 6*

## Effect

There was no way to independently reconcile the bus ticket inventory. Potential for tickets to be misused without accountability.


## Cause

Oversight/Appropriate supervision structure not in place to ensure policies and procedures in place and consistent with practices.

## Criteria

Common practice suggest that assets with cash-equivalent value that are held for distribution should be controlled with inventories and reconciliations to ensure proper accountability.

48




*Issue 6*

## Recommendations

The Director should review this activity and ensure that:

1. Policies and procedures are documented in the division's operating manual.
2. Institute a formal process to log purchases, approve issuances, and reconcile the ticket inventory.
3. Review the method of purchasing tickets in consultation with Finance/Purchasing to determine whether alternate payment methods can be used and ensure that all related purchases are recorded on the general ledger.

49




*Issue 6*

## Management's Action Plan

Action Plan	Action Plan Owner	Completion Date
6.1 Policies and procedures will be created for the process of purchasing and distributing bus tickets.	Drug Court Administrator/CCP Director	July 1, 2017
6.2 An inventory spreadsheet will be maintained for bus tickets. The spreadsheet will list each individual bus ticket purchased and the participant who received the bus ticket. Drug Court Participants will sign and acknowledge the receipt of each bus ticket	Drug Court Administrator/CCP Director	July 1, 2017
6.3 The purchasing process for bus ticket will be reviewed with Finance and Purchasing to determine an alternative method to cash for purchasing bus tickets.	Drug Court Administrator/CCP Director.	August 1, 2017


50



## Issue 7

Agency did not keep Supporting Documents  
for Certain Transactions

51




*Issue 7*

## Condition

We were unable to verify 19 of the 60 (32%) adjustment, internal charge, and inter-departmental transfer (IDT) transactions sampled from postings to the agency's cost center.

52



*Issue 7*

### Effect

The agency could not support and verify the information posted to the cost center. Noncompliance with retention requirements.


### Cause

Appropriate supervision structure not in place to ensure policies and procedures in place and consistent with policies.

### Criteria

Library of Virginia retention requirements for localities indicate that financial records related to accounts receivable (including receipt records) should be retained for 3 years after the end of the state fiscal year.

53




*Issue 7*

## Recommendations

Institute document filing and retention practices to ensure compliance with Library of Virginia retention requirements for localities.

54




*Issue 7*

## Management's Action Plan

Action Plan	Action Plan Owner	Completion Date
7.1 Policies and Procedures will be implemented to ensure documentation and retention practices are in compliance with Library of Virginia retention requirements.	Drug Court Administrator/CCP Director	September 1, 2017


55



## Other Observations

The following slides include additional observations noted during our audit which were considered less critical in reaching our conclusions on our audit objectives.

56



*Other Observation 1*

### Review modified invoices to avoid duplicate payment


1 of 75 invoices was paid twice (\$125.90).

NOTE: The Oracle system does not allow the same invoice number to be keyed twice to the same supplier. When individuals make data entry errors, and the number cannot be re-entered, they may be required to modify the invoice number slightly to enable data entry and payment.

### Recommendation

Ensure review of vendor payments prior to modifying invoice numbers to determine if the agency had made prior, successful attempts to pay to avoid duplicate payment.

57




*Other Observation 1*

## Management's Action Plan

Action Plan	Action Plan Owner	Completion Date
Procedures will be updated and delineate a two person review of any modified invoice in order to avoid double payment. The O/A preparing the invoice will have another O/A or Drug Court Administrator review the modified invoice and ensure prior payment has not been made.	CCP Director/Drug Court Administrator Financial O/A	August 1, 2017

58


*Other Observation 2*
  
  

### Ensure all travel is settled within 14 days of return


Review of travel expenditures revealed 13 of 27 (48%) travel expenditures for staff and 1 travel expenditure for the Supervisor greater than \$300 which were settled more than 14 days after return.

*This is the required timeframe per County policy designed, in part, to help ensure any advanced travel funds not spent are returned timely. No funds were to be returned to the County for any of these instances of employee travel.*

### Recommendation

Ensure all travel is settled within 14 days of return in compliance with travel policy


59


*Other Observation 2*
  
  

## Management's Action Plan


Action Plan	Action Plan Owner	Completion Date
Policies and Procedures will be updated to reflect all travel will be settled within 14 days of return. The CCP Director will review all travel submission to ensure the 14 days standard is met.	CCP Director	August 1, 2017

60




## Implementation of Control Improvements during the Audit

During the Audit, Drug Court Management initiated control improvements based upon Audit discussions. The following slide outlines the control weaknesses observed and the improvements that were implemented.




61



## Implementation of Control Improvements during the Audit


#	Control Weakness Observed	Control Improvement Implemented
1	Agency paid sales tax of \$22.52 on 1 of the 75 purchase order expenditures sampled.	Staff were made aware that County of Henrico should not pay sales or use tax. Additionally, agency contacted the vendor and got a refund for the taxes paid.
2	4 of 75 (5%) Direct Pay invoices and 20 of 75 (27%) Purchase Order invoices reviewed were paid more than 45 days after receipts or invoice date. However, no late payment fee was paid.	The division reassigned and consolidated responsibility for invoice payment to the CCP Office Assistant and reiterated the requirements for timely payment.
3	47 of 75 (62%) of direct pay expenditure invoices and 43 of 75 (57%) of Purchase order expenditure invoices sampled were not initialed on the support scanned into Oracle but were check marked to indicate review for goods and services received prior to payment.	The division reassigned an consolidated responsibility for invoice payment to the CCP Office Assistant and reiterated the requirements for initialing and dating invoices to be scanned into Oracle.
4	37 of 75 (48%) of purchase order expenditure invoices sampled were not date stamped upon receipt.	The division began to date stamp the invoices and will do so going forward.

62




## Closing

- Appreciate Agency's cooperation
- Follow up on open Action Plans will be performed as completion dates are reached or after sufficient time has passed to ensure the actions are effective and ongoing



63



## Report Distribution

Audit Committee (Mr. Hinson, Mrs. O'Bannon, County Manager)	Board of Supervisors, Non-Committee Members
Deputy County Manager for Community Services	Director of Community Corrections
Internal Audit Staff	

64



## Audit Contact Information

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