

COUNTY OF SANTA CLARA

CONTROLLER-TREASURER DEPARTMENT - INTERNAL AUDIT DIVISION

## **INTERNAL AUDIT REPORT**

*A Follow-up Audit to the Internal Audit Report:  
Audit of the FY 14 Victim Restitution Payments'  
Internal Controls*



Assignment 10329-A  
August 8, 2016

**Conclusion**

This is a follow-up audit to the *Internal Audit Report: Audit of the FY14 Victim Restitution Payments' Internal Controls* issued January 12, 2015. It is anticipated that this report will be submitted to the Board of Supervisor's Finance and Government Operations Committee in Fall 2016.

All seven of the recommendations have been implemented resulting in improvements in:

- Warrant handling
- Inquiry tracking and analyzing
- Data input and review

**Appendix A** provides additional description of each recommendation's implementation.

**Program Background**

Restitution is recovery of losses suffered by a victim because of an offender's illegal conduct. It is assessed by a judge in a criminal case as part of an offender's sentence. The court issued restitution payment orders are collected and remitted by the Department of Revenue (DOR). Debtors who cannot afford to make a lump sum payment are allowed to make monthly installment payments.

On a daily basis DOR receives cases with instructions for collecting restitution from debtors and remitting the proceeds to victims. From January 1, 2015 through December 31, 2015, DOR processed 1761 restitution accounts. To process these DOR uses a collection system, CUBS. Accounts are created in CUBS for the debtors and victims, transactions are tracked, and victim payment files are created.

Debtors make their payments in person to DOR's Cashiering Unit, by mail, online, or by phone. Payments received are deposited, a record is posted to the debtor's account, and a victim restitution payment record is created. The data is transferred from CUBS to the County's accounting system, SAP, through an automated interface. The SAP system is managed by the Controller-Treasurer's Fiscal Services Division. A memorandum of understanding defines the information technology requirements, departmental duties, responsibilities, etc.

For each interface CUBS generates a report of data submitted to SAP, and SAP generates a report of warrants printed. These two reports are reconciled by DOR to ensure accuracy and completeness. Errors identified are corrected by DOR and, if necessary, data is re-interfaced to SAP. Warrants are mailed to the victims. Warrants that cannot be delivered are returned to DOR for research and re-sending.

**Objective**

The audit objective was to evaluate the implementation status of the seven recommendations made in the *Internal Audit Report: Audit of the FY14 Victim Restitution Payments' Internal Controls* issued January 12, 2015.

**Scope**

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. The scope included follow-up on all seven recommendations made in the initial audit. The audit was conducted from March 2016 through July 2016.

**Methodology**

A follow-up audit evaluates the progress made on recommendations. It included identifying whether the implementation is properly substantiated. During a follow-up audit, the Internal Audit Division does not change the initial findings, recommendations, or priority levels assigned.

This report was reviewed by the department and their written response is attached. The cooperation and participation of department staff led to the successful conclusion of this project. We appreciate their assistance.

**Audit  
Background**

The Institute of Internal Auditors' professional standards and the Internal Audit Division's procedures, as approved by the Board of Supervisors, require follow-up on recommendations. This audit was performed to meet these requirements.

Signature on file

Rebecca Haggerty   
Internal Audit Manager  
August 8, 2016

**Attachments:**

Appendix A, STATUS OF AUDIT RECOMMENDATIONS

Department of Revenue Management's Response

*Internal Audit Report: Audit of the FY14 Victim Restitution Payments' Internal Controls*

## APPENDIX A STATUS OF AUDIT RECOMMENDATIONS

This Appendix summarizes the status of all recommendations made in the *Audit of the FY14 Victim Restitution Payments' Internal Controls*. It identifies those recommendations that are implemented, partially implemented, not implemented, no longer applicable, or will not be implemented.

Finding / Recommendation Number	Priority	Finding/Recommendation	Implementation Status	Comments
1		<b>Warrants are returned to the Department for mailing.</b>		
1.1	3	The Department of Revenue should request the Information Systems Department to directly mail the warrants instead of returning the warrants to the Department of Revenue.	Implemented	Victim restitution warrants are no longer mailed by the Department of Revenue. The warrants are directly mailed by Printing Services via the Mailroom.
2		<b>Undelivered warrants are processed by the same staff members who initially set up the victim restitution account.</b>		
2.1	3	The Department of Revenue should separate the responsibilities for research and resolution of warrants returned undelivered from account set up.	Implemented	The Department of Revenue now separates the responsibilities.
2.2	3	The Department of Revenue should consider monitoring reasons for undelivered warrants and regularly analyze the reasons to identify business improvements.	Implemented	The mechanism of monitoring and analyzing the reasons for undelivered warrants is in place.
3		<b>Victim inquiries and complaints are not evaluated for process improvement.</b>		
3.1	3	The Department of Revenue should consider monitoring reasons for victim inquiries and regularly analyze the reasons to identify business improvements.	Implemented	The Department of Revenue is monitoring reasons for victim inquiries and regularly analyzes the reasons to identify business improvements.

Finding / Recommendation Number	Priority	Finding/Recommendation	Implementation Status	Comments
3.2	3	The Department of Revenue should maintain a log for victim complaints and regularly analyze the complaint reasons to identify business improvements.	Implemented	The Department of Revenue monitors for victim complaints and will regularly analyze the complaint reasons; however, the Department of Revenue has not recently received complaints.
4		<b>Data entry for account set-up and changes is manually performed without review.</b>		
4.1	3	The Department of Revenue should implement procedures for regular review of data entry for account set up and account changes. The review could be performed on a spot check basis. The review should include complex transactions.	Implemented	On a regular basis, the Department of Revenue reviews the data entry for account set-up and account changes. The Department of Revenue has reviewed a sample of approximately 30% of the cases.
5		<b>The administration fee is manually calculated without review.</b>		
5.1	3	The Department of Revenue should implement procedures for regular review of account fee calculations, possibly on a spot check basis.	Implemented	The Department of Revenue procedures for regular review of account fee calculations are in place.

**County of Santa Clara**  
**Department of Revenue**



County Service Center  
1555 Berger Drive, Bldg. #2  
San Jose, California 95112  
(408) 282-3200 FAX (408) 287-2595

Mailing Address:  
Department of Revenue  
P.O. Box 1897  
San Jose, California 95109-1897

---

**DATE:** August 17, 2016

**TO:** Rebecca Haggerty, Internal Audit Manager

**FROM:** Ramsin Nasser, Interim Director, Department of Revenue 

**SUBJECT:** Internal Audit Report: A Follow-up Audit on Victim Restitution Payments' Internal Controls issued January 12, 2015

Thank you for the opportunity to respond to the Internal Audit Report: A Follow-up Audit of the FY14 Victim Restitution Payments' Internal Controls issued January 12, 2015. I have reviewed the report and agree with the status of the audit recommendations. Specifically, all seven recommendations have been implemented.

I appreciate the work of the Internal Audit Division on this project.

# County of Santa Clara

Finance Agency  
Controller-Treasurer

County Government Center  
70 West Hedding Street, East Wing 2<sup>nd</sup> floor  
San Jose, California 95110-1705  
(408) 299-5206 FAX 287-7629



---

Assignment 10329

Date: January 12, 2015

To: Susan Ping Wong, Director of Revenue Collections  
Dora Espinoza, Department Fiscal Officer, Dept. of Revenue  
Jeffrey V. Smith, County Executive  
Emily Harrison, Finance Agency Director  
Alan Minato, Controller-Treasurer  
Board of Supervisors  
Civil Grand Jury

From: Rebecca Haggerty, Internal Audit Manager *RH*

Subject: Internal Audit Report: Audit of the FY14 Victim Restitution Payments' Internal Controls

We have completed an Audit of the FY14 Victim Restitution Payments' Internal Controls as scheduled in the FY15 Audit Plan. We completed this audit on December 22, 2014. It is anticipated that this audit will be submitted to the Board of Supervisor's Finance and Government Operations Committee during the winter of 2015.

This report discusses the victim restitution payment interface process. The audit encompassed County payments for victim restitution made from July 1, 2013 through December 31, 2013. Overall we concluded that controls are adequate, and we identified improvements in the following areas that would further strengthen the controls:

1. Warrant handling
2. Data input processing
3. Inquiry tracking and analyzing

The Department expects to complete implementation of all of the recommendations by June 30, 2015.

We would like to express our thanks to the Department of Revenue staff for their cooperation and assistance throughout this audit. It was much appreciated.

Attachments:

Audit Report: Audit of the FY14 Victim Restitution Payments' Internal Controls  
Management Response

Board of Supervisors: Mike Wasserman, Cindy Chavez, Dave Cortese, Ken Yeager, S. Joseph Simitian  
County Executive: Jeffrey V. Smith

COUNTY OF SANTA CLARA

CONTROLLER-TREASURER DEPARTMENT - INTERNAL AUDIT DIVISION

## **INTERNAL AUDIT REPORT**

Audit of the FY14 Victim Restitution  
Payments' Internal Controls



Assignment 10329  
January 12, 2015

**TABLE OF CONTENTS**

<b>Executive Summary</b>	<b>2</b>
<b>I. Conclusion</b>	<b>2</b>
<b>II. Objective</b>	<b>2</b>
<b>III. Scope</b>	<b>2</b>
<b>IV. Background</b>	<b>3</b>
<b>V. Findings and Recommendations</b>	<b>4</b>
Finding 1 Warrants are returned to the Department for mailing.	<b>4</b>
Finding 2 Undelivered warrants are processed by the same staff members who initially set up the victim restitution account.	<b>4</b>
Finding 3 Victim inquiries and complaints are not evaluated for process improvements.	<b>5</b>
Finding 4 Data entry for account set-up and changes is manually performed without review.	<b>5</b>
Finding 5 The administration fee is manually calculated without review.	<b>6</b>
<b>VI. Management Response</b>	<b>Attachment</b>

## EXECUTIVE SUMMARY

**Conclusion** The controls over interfaced victim restitution payments are adequate. Improvements in the following areas would further strengthen the controls:

1. Warrant handling (Findings One and Two)
2. Inquiry tracking and analyzing (Finding Three)
3. Data input and review (Findings Four and Five)

The report includes five findings resulting in seven recommendations. Of these:

- None are Priority One<sup>1</sup> or Priority Two<sup>2</sup>, and
- Seven are Priority Three<sup>3</sup>.

In several cases, the Department of Revenue (DOR) has already initiated improvement. We encourage DOR to continue this effort. It is our hope that full implementation of all of these recommendations occurs by June 30, 2015. The Internal Audit Division will plan to follow-up on these recommendations subsequent to Department implementation, possibly during FY15-16.

**Objective** The objective of this audit was to test the controls over the accuracy and completeness of victim restitution payment transactions uploaded from the Department of Revenue collection system, aka CUBS, to the financial and accounting system, aka SAP, for disbursement.

**Scope** The audit encompassed victim restitution payments interfaced from CUBS to SAP from July 1, 2013 through December 31, 2013. We obtained an understanding of the business system, sampled transactions, and interviewed staff.

This audit was performed pursuant to the Internal Audit work plan for FY14 and FY15 and was conducted in conformance with *the International Standards for the Professional Practice of Internal Auditing*. A draft copy of the report was discussed with the Department Director prior to issuance of the final report. The Department's formal response is attached to this report.

---

<sup>1</sup> Priority One recommendations address issues of noncompliance with federal, State and local laws, regulations, ordinances and the County Charter. It includes those that would or could result in significant (\$250,000 or more) increases in revenue or decreases in expenditures. It includes significant weaknesses in internal controls. It also includes recommendations to make significant changes in federal, State or local policy through amendments to laws, regulations and policies.

<sup>2</sup> Priority Two recommendations result in moderate (\$50,000 to \$250,000) increases in revenue or decreases in expenditures. It includes changes to County ordinances, policies, or procedures. Also included are revisions to departmental or program policies and procedures.

<sup>3</sup> Priority Three recommendations would be the lowest priority level. Recommendations included in this level would address program related policies and procedures that would not have a significant impact on revenues or expenditures, but would result in modest improvements to service delivery, operational efficiency, or program effectiveness.

**Background** Restitution is recovery of losses suffered by a victim because of an offender's illegal conduct. It is assessed by a judge in a criminal case as part of an offender's sentence. The court issued restitution payment orders are collected and remitted by the Department of Revenue (DOR). Debtors who cannot afford to make a lump sum payment are allowed to make monthly installment payments.

On a daily basis DOR receives cases with instructions for collecting restitution from debtors and remitting the proceeds to victims. From July 1, 2013 through December 31, 2013, DOR processed 836 restitution accounts. To process these DOR uses a collection system, CUBS. Accounts are created in CUBS for the debtors and victims, transactions are tracked, and victim payment files are created.

Debtors make their payments in person to DOR's Cashiering Unit, by mail, online, or by phone. Payments received are deposited, a record is posted to the debtor's account, and a victim restitution payment record is created. The data is transferred from CUBS to the County's accounting system, SAP, through an automated interface. The SAP system is managed by the Controller-Treasurer's Fiscal Services Division. A memorandum of understanding defines the information technology requirements, departmental duties, responsibilities, etc.

For each interface CUBS generates a report of data submitted to SAP, and SAP generates a report of warrants printed. These two reports are reconciled to ensure accuracy and completeness. Errors identified are corrected by DOR and, if necessary, data is re-interfaced to SAP. Warrants are mailed to the victims. Warrants that cannot be delivered are returned to DOR for research and re-sending.

Signature on File

Rebecca Haggerty *RH*  
Internal Audit Manager  
January 12, 2015

Attachment: Management's Response

## Findings and Recommendations

### **Finding 1                      Warrants are returned to the Department for mailing.**

The Information System Department (ISD), a department separate from the Department of Revenue (DOR), prints victim restitution warrants weekly. These warrants are returned to staff in DOR. The DOR staff compares a count of printed warrants with an SAP report. DOR has not experienced any issues with the count of printed checks not matching the actual printed warrants. On rare occasion, DOR retains a warrant so a victim may pick up the warrant. However, almost all warrants are forwarded to the mailroom to be enveloped and mailed to the respective victims. This process returns "live" warrants to the same department, although a different unit, that created the warrants. We suggest that it would be preferable for the warrants to be mailed directly by ISD and not be returned to DOR. Not only would it increase internal control, but it would also be a more efficient and productive use of County staff.

**Recommendation 1.1**    The Department of Revenue should request the Information Systems Department to directly mail the warrants instead of returning the warrants to the Department of Revenue.  
(Priority 3) [expected March 31, 2015]

### **Finding 2                      Undelivered warrants are processed by the same staff members who initially set up the victim restitution account.**

When the warrant cannot be delivered to the intended recipient, the warrants are returned to DOR. Often this is because the victim moved without notifying DOR or the victim may have died. The returned warrants are analyzed and reissued by DOR staff. These are often the same staff members who set up the victim restitution account. We suggest that an improvement should be made to separate the account set up from the research and resolution.

DOR management does not routinely monitor the reasons why the warrant is returned as undelivered. Such monitoring may lead to insightful information on preventable issues. We suggest that DOR initiate monitoring and evaluation of trends in returned warrants.

**Recommendation 2.1** The Department of Revenue should separate the responsibilities for research and resolution of warrants returned undelivered from account set up.  
(Priority 3) [expected January 31, 2015]

**Recommendation 2.2** The Department of Revenue should consider monitoring reasons for undelivered warrants and regularly analyze the reasons to identify business improvements.  
(Priority 3) [expected June 30, 2015]

**Finding 3** **Victim inquiries and complaints are not evaluated for process improvement.**

We learned that victim calls to DOR are not tracked or monitored for trends or issue identification. If the call requires updating a victim's record in CUBS, the account clerk who received the call will take appropriate action(s) to update the victim's record in CUBS. If the call relates to a victim not receiving his/her restitution payments, the matter will be addressed by the employee who received the question. In the rare instance of a caller being upset, a DOR supervisor will investigate the complaint and initiate corrective action. We suggest that tracking the reason that a victim calls DOR may lead to insightful information on preventable issues. Such tracking may differ for routine inquiries from caller complaints. The tracking should be followed by a management review and initiation to correct preventable trends.

**Recommendation 3.1** The Department of Revenue should consider monitoring reasons for victim inquiries and regularly analyze the reasons to identify business improvements.  
(Priority 3) [expected June 30, 2015]

**Recommendation 3.2** The Department of Revenue should maintain a log for victim complaints and regularly analyze the complaint reasons to identify business improvements.  
(Priority 3) [expected January 31, 2015]

**Finding 4** **Data entry for account set-up and changes is manually performed without review.**

Starting with paper-based information received from the courts, Probation Dept., etc., DOR staff manually inputs initial debtor and victim information into CUBS. This data entry is very important for successful collection and remittance of restitution. The data entry is performed manually and is not reviewed by a second person. The sample of 25 initial set up items reviewed did not reveal data entry errors. The sample of ten items for account changes revealed nine changes with no error. However, one change that was unusually complex did have an error. The level of complexity on the transaction is rare.

Although we would like to believe that mistakes are rarely made during data entry, it is possible that errors occur, especially on complex transactions. As such, we suggest DOR implement a second check of data entry, possibly on a spot check basis. DOR should include a check of complex transactions.

**Recommendation 4.1** The Department of Revenue should implement procedures for regular review of data entry for account set up and account changes. The review could be performed on a spot check basis. The review should include complex transactions.  
(Priority 3) [expected January 31, 2015]

**Finding 5** **The administration fee is manually calculated without review.**  
  
With some exceptions and adjustments, debtors are charged a 15 percent administrative fee (up to \$1,000) for processing restitution payment orders. The calculation of the administration fee is done manually with an Excel application template by DOR staff during account creation and set up. Upon completion of each calculation, there is no review by a supervisor or second employee for accuracy and completeness. Although the sample of 14 items reviewed did not reveal any exceptions, it seems prudent to prevent errors by double checking the manual calculations.

**Recommendation 5.1** The Department of Revenue should implement procedures for regular review of account fee calculations, possibly on a spot check basis.  
(Priority 3) [expected January 31, 2015]

# County of Santa Clara

Finance Agency  
Department of Revenue  
County Government Center  
1555 Berger Drive Bldg 2, 1<sup>st</sup> Floor  
San Jose, California 95112  
(408) 282-3152 FAX 287-2595



DATE: January 30, 2015

TO: Rebecca Haggerty, Internal Audit Manager  
Controller-Treasurer Department

FROM: Susan Ping Wong, Director   
Department of Revenue (DOR)

SUBJECT: Departmental Response to Internal Audit Report:  
Audit of the FY14 Victim Restitution Payments' Internal Controls at DOR

## **Recommendation 1.1**

The Department of Revenue should request the Information Systems Department to directly mail the warrants instead of returning the warrants to the Department of Revenue. (Priority 3) [expected March 31, 2015]

## **DOR Response – Recommendation 1.1**

DOR agrees with this recommendation. Historically, many victims have preferred and requested to personally pick up their warrants from our office. Routing the warrants through DOR facilitated this service. However, we recently reassessed the volume of such requests, and it was determined that personal pick-ups are now rare. Therefore, DOR immediately took the initiative to work with the Controller's ASAP team to implement this recommendation. As of the week ending January 7, 2015, victim restitution warrants are directly mailed by ISD, via the County mailroom. However, should a victim request to pick up his warrant, on a case-by-case basis we can arrange to have specific warrants returned to our department for individual retrieval.

## **Recommendation 2.1**

The Department of Revenue should separate the responsibilities for research and resolution of warrants returned undelivered from account set up. (Priority 3) [expected January 31, 2015]

## **DOR Response – Recommendation 2.1**

DOR agrees with this recommendation. In past years, it was always our practice to separate the various victim restitution duties. Unfortunately, several years ago, services for victim restitution were hampered by budget cuts, and the research function for

returned warrants was eliminated due to lack of resources. In FY14, we received an Account Clerk I/II position to assist with the AB109 impacts, including resurrection of the research of returned warrants. During the time of the audit, there was a turnover in staffing which temporarily impeded the separation of duties. DOR has resumed its practice and assures that another staff member will perform this function when there is a staffing turnover.

### **Recommendation 2.2**

The Department of Revenue should consider monitoring reasons for undelivered warrants and regularly analyze the reasons to identify business improvements. (Priority 3) [expected June 30, 2015]

### **DOR Response – Recommendation 2.2**

DOR agrees to consider this recommendation; however, we believe its implementation would be costly, with little derived benefit. Based on past experience and informal observation, we have noted that the main reason for undelivered warrants is that the victim has moved without notifying our office of his/her address change. The correspondence sent to victims explicitly requests that they notify our office of any address changes so that we may be able to disburse collections made on their behalf. Unfortunately, the amount of time before payment is made is typically lengthy, and address relocation is common. In order to implement this recommendation, it will require either a tedious manual process or a major change in programming within our system. Even if we have data that counts the incidence of address changes, it is unclear what business improvements could be made to alter victim relocation patterns. We will explore possible options, to include a test period with sample data to determine if manual efforts or system programming would be warranted. Also note that recommendation of 4.1 would minimize any address input errors.

### **Recommendation 3.1**

The Department of Revenue should consider monitoring reasons for victim inquiries and regularly analyze the reasons to identify business improvements. (Priority 3) [expected June 30, 2015]

### **DOR Response – Recommendation 3.1**

DOR agrees to consider this recommendation; however, we believe its implementation would be costly, with little derived benefit. Based on past experience and informal observation, we have noted that there are 3 main types of victim inquiries. Most victims 1) call to change their address on record, 2) ask about the status of their payment, or 3) request a name change. There are processes in place to handle each of these inquiries. In order to implement this recommendation, it will require either a tedious manual process or a major change in programming within our system. Even if we have data that counts the prevalence of these inquiries, it is unclear what business improvements could be made to alter the need to make these inquiries. We will explore possible options to include a test period with sample data to determine if manual efforts or system programming would be warranted.

**Recommendation 3.2**

The Department of Revenue should maintain a log for victim complaints and regularly analyze the complaint reasons to identify business improvements. (Priority 3)  
[expected January 31, 2015]

**DOR Response – Recommendation 3.2**

DOR agrees with this recommendation. Although DOR has not had very many complaints over the years, we concur that a log may provide a historical record of the more challenging inquiries made by victims and handled by the unit's supervisor. The log may lead to better awareness of victim concerns, as well as identification of possible service improvements.

**Recommendation 4.1**

The Department of Revenue should implement procedures for regular review of data entry for account set up and account changes. The review could be performed on a spot check basis. The review should include complex transactions. (Priority 3)  
[expected January 31, 2015]

**DOR Response – Recommendation 4.1**

DOR agrees with this recommendation. There needs to be a review of data entry after the account is set up to ensure that there are no data entry errors. This is a very important aspect to preserve the integrity and quality of our data and information. We have implemented a process as of December 2014 to randomly review the account set ups.

**Recommendation 5.1**

The Department of Revenue should implement procedures for regular review of account fee calculations, possibly on a spot check basis. (Priority 3)  
[expected January 31, 2015]

**DOR Response – Recommendation 5.1**

DOR agrees with this is recommendation, and it has been implemented as of December 2014 in conjunction with recommendation 4.1.

The Internal Audit Division has provided a careful and thorough review of DOR's internal controls for FY14 Victim Restitution payments. We appreciate your insights and suggestions and the invitation to look at areas where we can make improvements. We believe our joint efforts will lead to positive results and will serve well both the County and its citizens.

END