



# Cayuga County Probation Department

## Internal Controls Over Financial Operations

### Report of Examination

Period Covered:

January 1, 2011 — January 31, 2013

2013M-171



Thomas P. DiNapoli

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	2
<b>INTRODUCTION</b>	3
Background	3
Objective	4
Scope and Methodology	4
Comments of Local Officials and Corrective Action	4
<b>INTERNAL CONTROLS OVER FINANCIAL OPERATIONS</b>	5
Policies and Procedures	5
Control Over Cash	6
Restitution and Surcharges	8
Financial Records	13
Recommendations	15
<b>APPENDIX A</b> Response From Local Officials	17
<b>APPENDIX B</b> Audit Methodology and Standards	21
<b>APPENDIX C</b> How to Obtain Additional Copies of the Report	23
<b>APPENDIX D</b> Local Regional Office Listing	24

# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

September 2013

Dear County Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and County Legislature governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Cayuga County Probation Department, entitled Internal Controls Over Financial Operations. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

## Background

Cayuga County (County) is located in central New York State and has a population of approximately 80,000. The County is governed by the County Legislature (Legislature), which is composed of 15 elected members who represent the 23 towns and one city located within the County. The Legislature has administrative authority over County operations, and the Chairman of the Legislature is the Chief Executive Officer. The County Administrator<sup>1</sup> acts as representative of the County Legislature, and has general supervision over all departments and operations, with guidance and direction from various Legislative committees. The Cayuga County Probation Department (Department) provides services under the supervision of the Legislature and County Administrator. The Judicial and Public Safety Committee provides oversight of the Probation Department.

The Department is responsible for collecting and disbursing court-ordered restitution to victims and related surcharges to the County. The Director of Probation (Director) is responsible for managing the day-to-day operations of the Department which is staffed by a probation supervisor, four senior probation officers, four probation officers, and four<sup>2</sup> clerical staff. The Director is responsible for adopting policies and procedures to guide Department staff (staff) in properly accounting for and safeguarding all moneys received, and in collecting all delinquent amounts due from probationers. The probation supervisor has been acting as interim director since the former director retired, as of August 31, 2012.<sup>3</sup>

The Director reported on the County's website that in 2011,<sup>4</sup> the Department supervised on average between 660 and 690 probationers, received 397 new supervision cases, closed 421 cases, and filed 114 Violations of Probation. The Department also reported that in 2011 it collected \$104,871 and disbursed \$99,143 to crime victims and \$5,728 to the County for related surcharges.<sup>5</sup> In addition to active probationers, the Department is responsible for collecting court-ordered restitution from conditional discharge (CD) clients,<sup>6</sup> who

<sup>1</sup> The former County Administrator resigned after we completed audit fieldwork, effective April 12, 2013.

<sup>2</sup> Three senior typists and one account-clerk typist (who retired June 2012 and continued working as a part-time clerk)

<sup>3</sup> The former director held that position since January 1, 2009, when he replaced the previous director of 17 years.

<sup>4</sup> As of May 28, 2013, the website had not been updated with 2012 activity.

<sup>5</sup> Based on unaudited records

<sup>6</sup> The Interim Director told us the Department had over 230 CD clients.

are sentenced to pay restitution and related surcharges but are not required to meet with probation officers, and from defendants who are sentenced to incarceration in a NYS Department of Corrections (DOC) facility and ordered to pay restitution.

## **Objective**

The objective of our audit was to examine the Department's internal controls over the collection and disbursement of all moneys for which the Department is responsible. Our audit addressed the following related question:

- Are adequate internal controls in place to ensure the timely and complete collection and disbursement of all moneys for which the Department is responsible?

## **Scope and Methodology**

We examined the Department's internal controls over the collection and disbursement of restitution and related surcharges for the period January 1, 2011, through January 31, 2013. For the purpose of testing the unpaid victims' fund balance, which includes accumulated interest earnings and undisbursed restitution, we obtained access to available bank records dating back to 2004 to verify, on a test basis, the amount that should be included. We also reviewed some case files which were opened before the beginning of our audit period, while testing payments and obligations of clients still on probation.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

## **Comments of Local Officials and Corrective Action**

The results of our audit and recommendations have been discussed with County officials and their comments, which appear in Appendix A, have been considered in preparing this report. County officials agreed with our findings and recommendations and indicated that they have begun, and will continue, to initiate corrective action.

The Legislature has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the County Legislature to make this plan available for public review in the Clerk to the Legislature's office.

## Internal Controls Over Financial Operations

County and Department officials are responsible for establishing effective internal controls over the Department's financial operations to ensure that all moneys are properly collected, safeguarded, accounted for, and disbursed. Effective internal controls require Department officials to establish, implement, and communicate policies and procedures to ensure accountability over moneys received and the timely collection, enforcement and transmittal of all moneys for which the Department is responsible. Department officials also must provide sufficient oversight, ensure proper segregation of duties and make certain that the financial management tools provided are sufficient to carry out their responsibilities in an efficient manner.

County and Department officials had not established an adequate system of internal controls over the Department's financial operations. Written policies and procedures either had not been developed or they had not been adequately monitored, updated or distributed to all responsible staff. The Department did not maintain adequate records to support amounts collected or uncollected, the amount of undisbursed restitution being held, or adequate records of unpaid victims, and did not properly segregate the duties of those receiving and disbursing cash. While the Department has consistently disbursed restitution payments it receives each month to the appropriate victims timely and routinely, it did not properly handle those moneys which could not be readily disbursed because the victims could not be located. The staff had not made payments of undisbursed restitution to unpaid victims, as required by law, in many years, if ever. As of August 2012, the Department held over \$16,000 in undisbursed restitution which was collected between one year and over twenty years ago. Also, staff did not cancel checks outstanding for over a year as required by law. In addition, the Department did not consistently enforce payment of court-ordered restitution, and only reported noncompliance to the courts for six of the 31 selected cases that had balances in arrears.

Although we did not identify fraud, the lack of policies and procedures combined with the lack of segregation of duties and inadequate records creates an environment where fraud could exist and not be discovered within the normal course of the Department's activities.

### **Policies and Procedures**

County and Department officials are responsible for developing and implementing policies and procedures that provide a framework of guidance and oversight of operations and adequately explain and segregate financial duties, so that no one individual controls all phases of financial transactions. For example, the person who records

payments and the person who prepares the bank reconciliations should not also complete other portions of the cash receipt/disbursement process. Officials are also responsible for monitoring compliance with these policies, and for periodically reviewing and revising the policies to ensure they continue to meet the County's and Department's needs.

County and Departmental officials did not implement formal accounting or cash handling procedures to establish standard and vital controls over the receipt, recording, deposit, disbursement, transmittal and reporting of cash taken in by the Department. In addition, the Director did not put adequate internal controls, policies, or procedures in place to formally explain and segregate the Department's various financial duties. Although the Department had policies and procedures for certain aspects of operations,<sup>7</sup> most of them had not been updated in many years, were not distributed to all staff involved in the processes, and did not provide an efficient means of carrying out Departmental responsibilities. Significant deficiencies resulted from the lack of clearly stipulated and enforced policies and procedures and adequately segregated duties, including the inconsistent and sometimes ineffective enforcement of court-ordered restitution and failure to make statutorily required payments of undisbursed restitution.

## Control Over Cash

Effective internal control includes the segregation of duties so that no one individual controls all phases of financial transactions. When an optimal segregation of duties is not practical, it is important that officials implement compensating controls, such as increased supervisory oversight, to reduce the risk of undetected errors or irregularities. Another effective internal control is to ensure press-numbered receipts are used and properly recorded in a cash receipts ledger and retained. Duplicate receipt books should be controlled by someone not involved in cash collection. Cash receipts books and ledgers should be reviewed by management and reconciled to amounts deposited in the bank and recorded in individual client accounts.

While the Department has four clerical staff, which would allow the Department to substantially separate duties, we found that the Department had not adequately segregated cash receipt and disbursement responsibilities. During our audit period, one staff member was primarily responsible for most phases of the cash receipts and disbursement process, such as receiving cash, recording receipts in the cash ledger and on the client's ledger card, preparing a non-press numbered receipt, obtaining a blank check to be used to pay the victim, and recording the check number and amount in

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<sup>7</sup> Such as receiving and storing cash, addressing probation violations, and tracking unpaid restitution, many of which had not been updated in over 20 years

the cash ledger. The blank check and ledger card was then given to another staff member who filled in and mailed the check. In addition, though one staff member was primarily responsible for receiving all cash at the walk-up window, other staff members also had access to the cash. One staff member did not maintain sole custody and control of the cash box, and therefore, could not clearly be held accountable for its contents.

A third staff member was responsible for preparing monthly bank reconciliations as well as maintaining a large unmonitored bank balance (see *Undisbursed Restitution*). This staff member was also mainly responsible for the processing of money orders received by mail, had the ability to write checks, and served as a back-up for receipts taken at the walk-up window. With such control over multiple key aspects of financial transactions, there is an increased opportunity for initiating and concealing improper transactions.

Due to the lack of adequate written procedures, segregation of duties, and control over cash, we reviewed and assessed the record-keeping procedures and examined the cash journals, bank statements, and individual ledger accounts, and identified several inadequacies with current procedures:

- Instead of using press-numbered duplicate receipts, staff created blank receipts on plain paper and manually added the receipt numbers. The staff's process was to stack the client card, receipt, and cash ledger, while separated by carbon paper, and then write the information on the receipt which would carbon copy onto the ledger card and cash ledger. This process could be easily sidestepped in many ways. As examples, the receipt given to the client would not have to be the actual paper used when creating a carbon image, additional receipts could be printed, or receipts could be recorded on the client cards, but omitted from the cash ledger and therefore, would avoid detection if not deposited.
- There were numerous instances where staff members used correction fluid to delete information from the journal, crossed out receipts as voided without retaining original receipts, and made numerous adjustments to names, dates, amounts, and receipt and check numbers on client cards and the cash ledger. In some cases, information was directly recorded in the cash or client ledger instead of with carbon paper. There was often no explanation noted on the cash journal for the changes and no indication of any supervisory review or approval of the changes.

- Blank receipts are left unattended on a desk, as are a small supply of blank checks, which significantly increases the risk of and ability to write unauthorized checks or recreate receipts with amounts different than originally recorded.

This lack of segregation of duties, management oversight, and a more sophisticated accounting system<sup>8</sup> would make it very difficult to discover a misappropriation of funds, or other errors or improper entries made by staff. Due to these weaknesses and increased risk, we conducted detailed testing of available records to determine, to the extent possible, if recorded receipts and disbursements agreed to amounts recorded on individual client cards, bank deposits, and cleared checks. We reviewed client cards for agreement to the cash ledger for client name, victim name, receipt amount, date, receipt number, and restitution and surcharge payment amounts. We also traced total receipts for December 2011 and January 2012, which totaled \$14,589, to corresponding bank statements and compared the total surcharge collected to the monthly payment to the County Treasurer. We did not find any instances of intentional improper actions. However, this record keeping process, which allows users to delete receipts without documentation, oversight, or an established method of detection, significantly increases the risk of loss or theft of funds, which may go undetected.

## **Restitution and Surcharges**

The Department is the County's designated agency for the collection of all court-ordered restitution and related surcharges,<sup>9</sup> and for the timely distribution of amounts collected to crime victims (victims) and the County Treasurer's office. Criminal Procedure Law and the New York Codes, Rules and Regulations (NYCRR) provide that a probation department designated to receive restitution payments and surcharges must report to the court any failure of a probationer to comply with court orders. The County and Department must implement policies and procedures to aggressively enforce collections and adequately account for and distribute them to victims and the County in a timely manner.

We noted significant weaknesses with the enforcement of restitution and surcharges. The condition of the records and the number of cases in arrears are the result of not having adequate and enforced procedures

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<sup>8</sup> Most computerized accounting systems have built in controls over changes and adjustments, and provide for same-time posting to control and subsidiary records, as well as logs of user activity.

<sup>9</sup> New York State Penal Law provides that, where restitution is imposed as part of a sentence, the court shall direct the defendant to pay a 5 or 10 percent surcharge to the official or organization responsible for the collection and administration of restitution payments. The designated surcharge is retained by the County as revenue.

in place to ensure the proper collection, recording, enforcement and distribution of court-ordered financial obligations.

Undisbursed Restitution (Unpaid Victims' Fund) — A significant function of the Department is to collect victim restitution and related surcharges as ordered by the courts, and timely remit them to victims and the County. At times, however, collected restitution is not disbursed to the intended beneficiary because the victim cannot be located using reasonable efforts. Restitution payments, along with earned interest, should be carefully tracked and promptly remitted to the appropriate party. Restitution that remains undisbursed for one year should be transferred to a separate account, commonly referred to as the unpaid victims' fund,<sup>10</sup> and designated for the payment of restitution orders, beginning with those that have remained unsatisfied for the longest period of time. NYCRR require local probation departments to establish written procedures for handling undisbursed restitution payments, including any interest earned; ensure that all financial obligations are promptly disbursed to intended beneficiaries or remitted to appropriate county officials; and maintain a current list of unsatisfied restitution orders<sup>11</sup> which identifies victims who have remained unpaid for the longest period of time. To facilitate timely distribution of undisbursed restitution, the Department should also maintain an adequate and updated record of all undisbursed restitution payments being held, which identifies the probationer who paid, the date of the payment, and a detailed accounting of how much money was paid to the victim, and documentation of attempts to locate the victim.

Staff was unaware of any policy in place related to undisbursed restitution or an unpaid victim's fund. However, we found an undated "Director's Policy on Financial Obligations" in the former Director's office that requires staff to maintain a restitution log book, which lists all restitution orders in order of the date received, and is clearly marked when accounts are paid in full. The policy goes on to state that with this log system, the longest unsatisfied restitution orders will be easily identifiable and the corresponding individual ledger cards will contain the necessary victim information. The policy also provides that the Department will make payments of undisbursed restitution to unpaid victims annually.

Staff told us that they do not maintain an ongoing record of unpaid victims and restitution amounts and could not provide or easily

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<sup>10</sup> Criminal Procedure Law defines undisbursed restitution as payments that were remitted by a defendant, but not disbursed to the intended beneficiary, and remain unclaimed for a year.

<sup>11</sup>Unsatisfied restitution orders are those for which the last scheduled payment is at least 60 calendar days overdue.

prepare a list of unpaid victims. On further inquiry, we found that a staffer had been maintaining a handwritten “restitution and violation log” in which she recorded offenders ordered to pay restitution and related surcharges. However, we identified various instances when closed cases were not marked paid in full, or other information was not timely updated. Absent an accurate and up-to-date record of unpaid restitution orders, the Department is not in a ready position to easily identify the longest outstanding restitution orders, to begin making long overdue disbursements from the unpaid victims’ fund.

In addition, staff could not recall the last time, if ever, that the Department made a payment of undisbursed restitution to an unpaid victim. In fact, a staff member told us she did not even know they could make payments of undisbursed restitution to other victims, let alone that they are required to by statute and Department policy. The Department also does not have an accurate list of offenders and relevant information to support the amount of undisbursed restitution that is being held in the Department’s bank account. Such a list is essential to facilitate distribution of these funds, and also to provide a clear accountability for the cash balances on hand, and to support the Department’s bank reconciliation.

At the beginning of our audit fieldwork, we reviewed the Department’s most recent bank statement and reconciliation, for August 2012, which included 208 outstanding checks totaling \$28,492. These outstanding checks primarily represented uncashed restitution checks written to victims. This list of outstanding checks (only check number and dollar amount) represents the Department’s only record of undisbursed restitution being held. As of August 31, 2012, 157 of the outstanding checks, which totaled \$16,269, had been outstanding for more than a year and should become part of an unpaid victims fund and paid to the victims with the longest outstanding restitution orders. Some checks were outstanding for more than 20 years, and at least fifty were outstanding more than ten years. This is a substantial amount of funds that has remained idle in the Department’s bank account, while victims’ court-ordered restitution (some outstanding more than 20 years) remained unpaid. It is essential to pay out undisbursed restitution to unpaid victims as soon as it becomes available (unclaimed for one year) because the longer victims remain unpaid, the more difficult it can become to locate them.

Furthermore, General Municipal Law requires that outstanding checks dated at least one year prior to the reconciliation date be canceled and the amounts returned to the funds originally charged. When checks are carried as outstanding for extended periods, the cash position is understated and moneys may therefore appear to be unavailable for distribution to unpaid victims.

Enforcement of Restitution and Surcharge — The Department is responsible for the enforcement and collection of all court-ordered restitution and related surcharge from offenders sentenced to probation supervision, conditional discharge (CD), or incarceration in a NYS Department of Corrections (DOC) facility. Generally, the courts include the payment of ordered restitution and surcharges as a condition of the sentence, which requires that the obligations be paid in full before the end of probation; however, the Department must inform the courts by issuing a Violation of Probation well in advance of the expiration of the probation period, in order for the court to take action to address the unpaid obligations. If the Department does not refer the case to the court in time to amend the sentence before probation expires, the condition will expire with the probation period, and the victim may not receive the court-ordered restitution.

To assess the Department's enforcement procedures, we randomly selected and reviewed 74 cases<sup>12</sup> with original court-ordered obligations totaling approximately \$210,000, and balances outstanding as of December 31, 2012, totaling approximately \$166,000. Of those outstanding balances, approximately \$51,000, or 31 percent, was in arrears. Thirty-six of the selected cases had been closed,<sup>13</sup> and 27 of those 36 had been paid in full. The Department did not consistently enforce payment of court-ordered restitution, and only reported noncompliance to the courts for six of the 31 selected cases that had balances in arrears.

Probation Supervision Cases — Probation supervision cases are assigned to probation officers who are responsible for providing supervision to ensure that the offender is in compliance with all of the terms and conditions of the court order including payment of restitution and related surcharge. Of the 30 supervision cases we reviewed, 10 cases were determined to be in arrears totaling \$16,938 (32 percent).

We found documentation that the Department took appropriate action in five of the 10 cases by filing a violation of probation. We found no evidence in the other five case records that the Department had notified the court of the offenders' failure to make payment of the court-ordered restitution and related surcharge. Of these cases, four were still active with outstanding balances totaling nearly \$27,000 and over \$13,000 (50 percent) of that in arrears. For the fifth case, the probation term had expired with \$822 of unpaid restitution and surcharge remaining.

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<sup>12</sup> We tested 30 probation supervision, 24 CD, and 20 DOC cases. See *Appendix B, Audit Methodology*, for details on sample selection.

<sup>13</sup> Due to the lack of computerized or other organized and detailed records which included the status of cases, we were unable to ensure selection of open cases to test current enforcement procedures.

Conditional Discharge — Conditional discharge (CD) is a deferred adjudication whereby the defendant is released subject to certain conditions, under which the full penalty may be reinstated upon a violation of those conditions. The Department is required to provide written notice to the court of any condition violations by a defendant. The court may modify the conditions or revoke the sentence at any time prior to the expiration or termination of the period of conditional discharge.

The Department has not assigned CD cases to probation officers for oversight responsibility, to ensure that offenders make required restitution payments in compliance with court-ordered terms. In addition, no clerical staff had been assigned to monitor and follow up on overdue payments for CD cases. The 24 CD cases we reviewed had original court-ordered restitution and related surcharge totaling nearly \$53,000. We found the Department had collected approximately \$12,500, as of December 31, 2012, which included seven cases paid-in-full and two additional cases paid-to-date. However, for 14 of the 15 cases with balances in arrears,<sup>14</sup> we found no documentation to indicate that the Department met its responsibility of notifying the court when offenders failed to make court-ordered payments. Of the \$17,000 in arrears, \$8,699 is owed to the Cayuga County Health and Human Services and \$2,502 is owed to the NYS Crime Victims Board. Thus, improved enforcement efforts would help make other County departments and crime victims whole in a timelier manner.

Department of Corrections (DOC) — The Department is also required to collect restitution from certain defendants who are sentenced to incarceration at a NYS corrections facility. While the Department does not provide probation supervision to these defendants, as the County's restitution collection agency, the Department is responsible for collecting and enforcing court ordered restitution to the extent possible. For example, if an inmate is participating in a work program, his net earnings are deposited in a trust account with the DOC, and may be disbursed for certain authorized purposes including court-ordered restitution.

The Department does not assign DOC cases to probation officers for oversight or monitoring, and does not actively pursue collection of restitution from DOC inmates. When a new case is opened, the Department sends notification to the NYS DOC facility of the amount of court-ordered restitution and related surcharge the offender owes. Staff indicated that generally, when the offender is released from custody, the correctional facility remits to the Department, any monetary balance held in the offender's inmate account, up to the amount of any outstanding restitution and surcharge.

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<sup>14</sup> Totaling over \$17,000 or 44 percent of the total outstanding balances

Of the 20 cases we reviewed, for which court-ordered restitution and related surcharge totaled over \$76,000, the Department had only collected \$3,514 as of December 31, 2012. Of the nearly \$73,000 in outstanding balances, approximately \$16,500 (23 percent) for six cases, was in arrears, after the defendant had been released from prison. We found no documentation in the files for any of the cases in arrears, to indicate that the Department had met its responsibility of notifying the court when non-compliance with payment occurred. We also found no indication that the Department attempted to collect ordered restitution from defendants while they were still in DOC custody, as was the case for several cases we reviewed.

The Department's ability to enforce restitution and surcharges is hampered by the records maintained. The Department does not use computerized records or any other method to generate a routine report of outstanding financial obligations that are currently due, or in arrears. Thus, Department and County officials have no available record or report of outstanding financial obligations, to easily assess the significance of the amount of outstanding restitution orders in arrears, and the Department's efforts to enforce them. In fact, probation officers are not even given reports for their assigned probationers, so they can be aware of and follow up on overdue payments.<sup>15</sup> As discussed below, County officials must ensure the Department has adequate tools to enable it to effectively fulfill its statutory duties.

## **Financial Records**

County officials are responsible for ensuring that suitable records are in place to adequately track and report amounts due, received, and disbursed. Effective controls should be in place to ensure that transactions are properly authorized and to help identify errors or irregularities. Because the Department handles a large volume of different types of cases, sophisticated records are required which provide up-to-date and accurate detailed and summary information, to enable staff to adequately monitor and enforce payment of court-ordered obligations and disburse them timely and in accordance with laws and regulations. The Department is responsible for backing up or securing all of its financial and case management records to protect them from loss or damage, and must retain them intact for the minimum legal retention periods set forth in the applicable State Archives Records Retention and Disposition Schedule,<sup>16</sup> and/or until they are no longer needed.

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<sup>15</sup> Probation officers can look at the client ledger card available for each probationer, to determine payment history and status; but the probation officers we spoke to said they do not always do so.

<sup>16</sup> All probation case record material must be retained for a minimum of six years and up to 10 years. Master summary (index) records containing summary information on each case must be retained as a permanent record.

The Department does not use a computerized accounting system to maintain financial records. With the exception of the original recording of court orders, which include the amount of restitution ordered, into a basic database, the Probation Department maintains all of its financial records with a manual system.<sup>17</sup> Staff manually prepares a client ledger card for each new case, on which they record client and victim information, and all receipts from, and disbursements made on behalf of the individual. Receipt and disbursement information for individual clients is not maintained anywhere else but on these ledger cards, which are not protected and secured, or backed up or duplicated, in any way.<sup>18</sup> Cash receipt and disbursement journals are manually prepared, and transactions are entered on the journal at the same time as the client ledger cards. Unbound cash ledger sheets, going back many years, are just stacked on a desk in the office.

In addition, since the ledger cards and cash ledger were recorded using carbon paper, we found that some entries were difficult to read, and after sitting for many years, other entries had faded and were difficult to decipher. Failure to adequately secure and/or backup these essential financial and case records, increases the risk that they could be lost or damaged, and not preserved and available for the six to ten years required by the probation records retention schedule.

County officials and Department staff told us that the Department's previous requests to purchase software to help maintain probation financial records were denied due to budget constraints. While software implementation bears both monetary and conversion (staff time) costs, the County should compare those costs against the benefits of having accurate and computerized records, which would assist in more effective operations and legal compliance, and may over time save significant staff time and effort. For example, fully implemented software would provide detailed records to help correct many deficiencies discussed in this report, such as clear records of held moneys (unpaid victims' fund), uncompensated victims, and outstanding obligations in arrears.

In addition, a computerized financial system includes built-in controls to help ensure that transactions are properly authorized and help identify errors or irregularities. One such control is an audit trail, a computer-generated record of any change or transaction made on the system. An audit trail enables management to determine when an entry was made and what it entailed, and establishes individual accountability by identifying the associated user account.

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<sup>17</sup> As described, in part, under *Control Over Cash*

<sup>18</sup> Client ledger cards for active cases are stored in an open file bin on a desk near the customer service window. Ledger cards for recently closed cases are kept in a box in a non-fire safe file cabinet and archived records are in a locked room on a different floor.

## Recommendations

1. The County Administrator and/or Legislature should take a more active role in providing oversight of the Director and the Department's financial operations. This includes establishing, implementing, and monitoring written policies and procedures for all Department operations, and regularly reviewing and updating them as needed.
2. Department officials should develop, or review and update, and implement and enforce written policies and procedures to establish adequate internal controls and to define employees' job duties within the Department, and ensure adequate segregation of duties among staff.
3. The Director should require the use of either duplicate press-numbered receipt books or computerized receipts with controlled numbering of and adjustments to issued receipts.
4. Department officials should review internal controls over the record keeping system to ensure that staff do not have the ability to modify or delete financial transactions without appropriate supervisory approval, and that such changes are adequately documented.
5. The Director and staff should ensure that blank receipts and check stock are secured and accounted for at all times.
6. Department officials should establish or update, and enforce, policies and procedures for accounting for undisbursed restitution, which require:
  - Detailed and routinely updated records of undisbursed restitution being held, the source of all held moneys, and attempts to locate or contact the applicable victims
  - Detailed and routinely updated records of all unpaid victims in chronological order
  - Reasonable and documented attempts to obtain contact and remittance information for all unpaid victims
  - Payouts of accumulated undisbursed restitution, as soon as possible, and then at least annually as more receipts go unclaimed,<sup>19</sup> to those victims who have been unpaid for the longest period of time.

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<sup>19</sup> Or as soon as any given restitution payment has been held and undistributed for one year

7. The Director should ensure that staff void and cancel all outstanding checks that remain uncashed for one year.
8. Department officials should establish and consistently enforce updated and adequately disseminated written policies and procedures for enforcing timely collection of restitution and related surcharges, including specific and appropriate procedures for notification to the court when an offender has not complied with payment of court-ordered financial obligations.
9. Department officials should establish and implement procedures to ensure that Conditional Discharge and Department of Correction cases are adequately monitored for compliance with payment of court-ordered financial obligations and formally reported to the court when non-compliance occurs.
10. County and Department officials should consider the benefits of purchasing and implementing financial and case management software to enable staff to perform their duties more efficiently, maintain adequate records, and comply with various laws and regulations.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

The local officials' response to this audit can be found on the following pages.



## County of Cayuga

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Suzanne Sinclair  
Cayuga County Administrator

September 20, 2013

Office of the State Comptroller  
Division of Local Government & School Accountability  
The Powers Building  
16 West Main Street – Suite 522  
Rochester, NY 14614

Unit Name: Cayuga County Probation Department  
Audit Report Title: Internal Controls Over Financial Operations  
Audit Report Number: 2013M-171

We have reviewed the audit report. We appreciate the time and effort that you have taken to discuss these with us in the recent exit conference. Overall, we agree with the findings and recommendations. Our comments, including some steps taken already, follow the main recommendations.

**Audit Recommendation 1:**

The County Administrator and/or Legislature should take a more active role in providing oversight of the Director and the Department's financial operations. This includes establishing, implementing, and monitoring written policies and procedures for all Department operations, and regularly reviewing and updating them as needed.

**County Response:** The County agrees that a more active oversight role is needed, and has taken steps to provide more support and oversight. The Probation Department and the County Administrator are working together to review the department's policies and procedures. In addition, the County is actively looking for a new, full-time, and permanent director for the department, a position that has been vacant for some months after the retirement of the former director. We are hopeful that the position will be filled expeditiously.

**Audit Recommendation 2:**

Department officials should develop, or review and update, and implement and enforce written policies and procedures to establish adequate internal controls and to define employees' job duties within the Department, and ensure adequate segregation of duties among staff.

**County Response:** We agree with this recommendation and we are in the process of drafting policies and procedures, as mentioned above. We enlisted assistance from the Treasurer's Office in designing the cash handling procedures, and they have graciously offered very helpful suggestions. We appreciate their help. Our Probation Department staff participated in the design, and changes in procedures have been reviewed by the participants. In addition, documentation of the new procedures has been drafted and is awaiting final review.



## County of Cayuga

Suzanne Sinclair  
Cayuga County Administrator

### **Audit Recommendation 3:**

The Director should require the use of either duplicate press-numbered receipt books or computerized receipts with controlled numbering of and adjustments to issued receipts.

**County Response:** We agree with this recommendation. The Acting Director has contacted Purchasing and is in the process of designing the template of the receipt to order duplicate press-numbered receipt books. In the interim, pre-numbered, duplicate receipt books are being used.

### **Audit Recommendation 4:**

Department officials should review internal controls over the record keeping system to ensure that staff do not have the ability to modify or delete financial transactions without appropriate supervisory approval, and that such changes are adequately documented.

**County Response:** We agree with this recommendation, and supervisory oversight requirements are included in our updated draft procedures. While these draft procedures have not been finalized, we believe they represent substantial improvement.

### **Audit Recommendation 5:**

The Director and staff should ensure that blank receipts and check stock are secured and accounted for at all times.

**County Response:** We are in agreement with the recommendation. Receipt books being used now are bound, and the current book is available to the Sr. Typist 1 taking payments. The receipts being used are accounted for by the Acting Director and the receipts are pre-numbered. Receipt books that are not in use are secured in the supervisor's office. Check stock is now secured in the supervisor's office as well.

### **Audit Recommendation 6:**

Department officials should establish or update, and enforce, policies and procedures for accounting for undisbursed restitution, which require:

- Detailed and routinely updated records of undisbursed restitution being held, the source of all held moneys, and attempts to locate or contact the applicable victims
- Detailed and routinely updated records of all unpaid victims in chronological order
- Reasonable and documented attempts to obtain contact and remittance information for all unpaid victims
- Payouts of accumulated undisbursed restitution, as soon as possible, and then at least annually as more receipts go unclaimed, to those victims who have been unpaid for the longest period of time.

**County Response:** We agree with the recommendation and we are making modifications to comply with NYCRR requirements. A draft of policies and procedures for accounting for undisbursed restitution has been written and awaiting final review.



## County of Cayuga

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Suzanne Sinclair  
Cayuga County Administrator

**Audit Recommendation 7:**

The Director should ensure that staff void and cancel all outstanding checks that remain uncashed for one year.

**County Response:** We agree with this recommendation. We are revising our policies and procedures to conform to these recommendations.

We appreciate the recommendations of the auditors' report, and we are working diligently to update our policies and procedures to reflect these recommendations. We look forward to detailing our corrective actions in the Corrective Action Plan.

Signed: \_\_\_\_\_

\_\_\_\_\_  
Suzanne Sinclair  
Cayuga County Administrator

September 20, 2013  
Date

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

We reviewed the Department's internal controls over cash receipts and disbursements for the period January 1, 2011 to January 31, 2013. We performed an initial assessment of the Department, which included interviews of Department officials and staff; reviews of laws, rules, and regulations and existing Department policies or procedures; and limited tests of financial transactions. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses related to our objective. In order to accomplish the objective of the audit and to obtain valid evidence, our procedures included the following:

- We interviewed the interim Director and staff assigned to record financial information to learn about existing internal controls over financial operations related to the collection and disbursement of court-ordered financial obligations, and enforcement of delinquent obligations.
- We reviewed relevant laws and the State's Department of Criminal Justice Services rules and regulations that applied to the Department for criteria for compliance testing.
- We reviewed the duplicate receipt book used solely for mail receipts, for April 11, 2012, through June 11, 2012, and compared the names, dates, and amounts on the receipts to what was recorded in the cash journal.
- We traced every third receipt from the December 2011 and January 2012 cash ledger to the individual client records for agreement between names, dates, and amounts.
- We compared all receipts and checks recorded in the December 2011 and January 2012 cash ledger to the amounts reported on the bank statements.
- For December 2011 and January 2012, we tested every third receipt to determine that surcharges were correctly calculated and that total surcharges agreed to the amount paid to the County Treasurer per bank statements.
- We reviewed the December 2011 and January 2012 bank reconciliations to determine if they were prepared accurately and in a timely manner.
- In the absence of a list of accounts in arrears, we selected a sample of 30 probation supervision, 24 conditional discharge, and 20 DOC cases, using a random number generator from a list of restitution cases in the Department's Restitution and Violation Log book. Due to inaccuracies and limited information in the log book (i.e., some closed cases had not been marked as such in log), we selected a random sample of 125 cases, and reviewed the cases in the order selected until we reached our target sample sizes for each category. We reviewed the case files, court orders, and financial records to determine if staff was enforcing collection of overdue balances in accordance with laws, rules, and regulations and we calculated the amounts in arrears. We also compared clients' original court documents to the information recorded on the individual client cards.

- We attempted to identify the total amount of undisbursed restitution on deposit in the Department’s bank account, which was owed to crime victims with the oldest unsatisfied restitution orders.
- We reviewed old “outstanding checks” that were for victims that couldn’t be found, and traced some to old cash ledgers to identify the dates they were issued.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## APPENDIX C

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**AND SCHOOL ACCOUNTABILITY**

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