

# COUNTY OF SACRAMENTO

DEPARTMENT OF FINANCE - AUDITOR-CONTROLLER DIVISION - INTERNAL AUDIT UNIT

**INTERNAL AUDIT REPORT**  
**CHANGE OF CUSTODY REPORT**  
**DEPARTMENT OF REVENUE RECOVERY**



**Audit Committee Submittal Date: 11/16/2018**

## SUMMARY

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### Background

*Change of Custody* reviews are performed on County departments when outgoing directors separate from the County and when incoming directors assume leadership over a County department. The purpose of *Change of Custody* reviews is for the outgoing director to acknowledge what asset(s) are being left behind as of their departure date and what asset(s) the incoming director is accepting responsibility for when starting their employment with the County.

### Audit Objective

To confirm the Department of Revenue Recovery's (DRR) cash, accounts receivable, trust accounts, and capital asset balances as of the outgoing director's separation date from the County of Sacramento.

### Summary

Noted "*Comments*" during DRR's *Change of Custody* review:

1. Unconfirmed Capital Assets and Acquisition Amounts – Capital asset #72956 (Hardware and Software - Server) could not be located, and the physical description of the asset (server) reviewed could not be located on COMPASS. Additionally, DRR was unable to produce supporting documentation confirming the value of its Debt Management and Collection System (DMACS).
2. Missing Inventory Tag – Asset #80039 (Video Surveillance System) was not affixed with an inventory tag in order to confirm its physical description and existence to COMPASS.
3. Unreconciled Trust Fund Accounts – DRR's trust accounts do not agree to COMPASS. DRR's Restitution Trust (#0790796), SSI Interim Checks Trust (#0790801), Receipts Trust (#0790806), and Refund Trust (#0790813) have unreconciled balances of (\$411,194.15), (\$167,299.44), \$4,994,455.92, and (\$875,724.48), respectively.
4. Missing Supporting Documentation – DRR uses the 10% Withhold trust account to withhold a portion of contractor payments related to the DMACS software system until specific parameters are met. Supporting documentation could not be produced for the 10% Withhold trust account.
5. Debtor Social Security Number Usage – Debtor social security numbers were used for header text when posting transactions to COMPASS.
6. Accounts Receivables Balances for Other County Departments – DRR is not regularly determining the current valuation of debts assigned for collections with County departments. Additionally, DRR has yet to establish a policy for debts to remain on a submitting County department's system until proper approvals are granted.
7. Reviewing Accounts Collection Balances – DRR is retaining collections debtor accounts that are up to 40 years old but show no signs of collection activity. Debts do not appear to be regularly reviewed for collectability or processed for relief of accountability.



County of Sacramento

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*Inter-Office Memorandum*

June 22, 2018

To: David Villanueva, Deputy County Executive  
Sacramento County Executive's Office

From: Ben Lamera  
Director of Finance

By: Alan A. Matré, C.P.A.  
Chief of Audits

A handwritten signature in blue ink, appearing to read "Alan A. Matré", is placed to the right of the "By:" line.

Subject: **REPORT OF AGREED-UPON PROCEDURES FOR THE SACRAMENTO COUNTY DEPARTMENT OF REVENUE RECOVERY'S (DRR) CHANGE OF CUSTODY ON FEBRUARY 2, 2018**

At your request, we have performed the procedures enumerated below, which were agreed to by the Sacramento County Department of Revenue Recovery (DRR), solely to assist DRR with its change of custody on February 2, 2018. We performed our procedures at DRR's office located at 700 H Street, Suite 6720, Sacramento, California, 95814. DRR's management is responsible for maintaining sufficient controls for its accounting operations and capital assets. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of DRR's management. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. This report is applicable solely to the procedures referred to below and next page and is not intended to pertain to any of DRR's other operations, procedures or compliance with laws and regulations. Our procedures and findings are summarized as follows:

- We inspected two (2) out of five (5) capital assets in the possession of DRR.

Finding: We were unable to confirm one of the capital assets to COMPASS. In addition, both capital assets tested were not affixed with inventory tags. See Attachment II, *Comments and Recommendations*.

- We reviewed DRR's un-deposited receipts deposit, and cash on hand as of the close of business on February 2, 2018.

Finding: DRR's un-deposited receipts deposit and cash on hand at the close of business on February 2, 2018 appear to be properly accounted for. See Attachment I, *Schedule of Accountability*.

- We reviewed below DRR's Trust Fund account balances and inspected the trust funds' reconciliations on January 31, 2018:
  - 0790796 – DRR Restitution Trust
  - 0790801 – SSI Interim Checks Trust
  - 0790806 – DRR Receipts Trust
  - 0790813 – DRR Refund Trust
  - 0790814 – 10% Withhold

Finding: DRR's trust fund account balances as of January 31, 2018 are not reconciled. See Attachment I, *Schedule of Accountability*. Also see Attachment II, *Comments and Recommendations*.

- We compared the accounts receivable balance reported in DRR's collection system, Debt Management and Collection System (DMACS) to Sacramento County financial system (a.k.a. COMPASS).

Finding: DRR's account receivables balance could not be confirmed. Account receivables tested appeared to be properly reflected in DMACS. However, we noted a number of account receivables that appeared to be uncollectible due to the age of the outstanding balances. See Attachment I, *Schedule of Accountability*. Also see Attachment II, *Comments and Recommendations*.

Because the preceding procedures do not constitute an examination made in accordance with attestation standards established by the American Institute of Certified Public Accountants, we do not express an opinion on any of the accounts, financial statements, compliance, or items referred to above. Had we made an examination in accordance with attestation standards established by the American Institute of Certified Public Accountants, other matters may have come to our attention that would have been reported to you. This report relates only to DRR's change of custody on February 2, 2018, and does not extend to DRR as a whole.

DRR's responses to the findings identified during our procedures are described in Attachment II, *Comments and Recommendations*. We did not perform procedures to validate DRR's responses to the comments and, accordingly, we do not express opinions on the responses to the comments.

This report is intended solely for the information and use of the Sacramento County Board of Supervisors, Sacramento County Audit Committee, Sacramento County Executive, and DRR's management. It is not intended to be, and should not be, used by anyone other than these specified parties. However, this restriction is not intended to limit distribution of this report, which is a matter of public record.

Attachments

Attachment I, *Schedule of Accountability*

Attachment II, *Comments and Recommendations*

**COUNTY OF SACRAMENTO  
DEPARTMENT OF REVENUE RECOVERY  
CHANGE OF CUSTODY  
FEBRUARY 2, 2018**

**SCHEDULE OF ACCOUNTABILITY**

<u>CASH ON HAND</u>	<u>AMOUNT RECEIPTED</u>	<u>ACCOUNTABILITY</u>	<u>OVER/ (SHORT) VARIANCE</u>
Undeposited Receipts	\$ 97,716.70	92,678.95	0.00
	967.70	967.70	0.00
	<u>\$ 98,684.40</u> <sup>(1)</sup>	<u>93,646.65</u>	<u>0.00</u>

<u>TRUST ACCOUNTS</u> <sup>(2)</sup>	<u>COMPASS BALANCE</u>	<u>DMACS BALANCE</u>	<u>DIFFERENCE</u>
Restitution Trust (#0790976)	\$ (9,119,032.29)	\$ (8,707,838.14)	\$ (411,194.15)
SSI Trust (#0790801)	(233,292.79)	(65,993.35)	(167,299.44)
Receipt Trust (#0790806)	(3,704,440.19)	(8,698,896.11)	4,994,455.92
Refund Trust (#0790813)	974,456.52	1,850,181.00	(875,724.48)
10% Withhold Trust (#0790814)	(79.06)	(79.06)	0.00

<u>ACCOUNTS RECEIVABLE</u> <sup>(3)</sup>	<u>DMACS BALANCE</u>
Debtor Accounts Receivable	\$ 605,737,156.08

<sup>(1)</sup> Auditor witnessed \$93,646.65 of the \$98,684.40 deposited under deposit permit #1300660137. The \$5,037.75 difference is due to receipts collected by Treasury staff included with the deposit.

<sup>(2)</sup> Trust balances noted in COMPASS and DMACS are as of January 31, 2018. Trust account balances could not be confirmed due to unreconciled reconciled balances.

<sup>(3)</sup> Debtor balances are not accrued in the County's Financial Accounting System (a.k.a. COMPASS) due to the fact that the realization of the revenues are doubtful. The Debtor Accounts Receivable balance could not be confirmed. See Attachment II, *Comments and Recommendations*.

**COUNTY OF SACRAMENTO  
DEPARTMENT OF REVENUE RECOVERY  
CHANGE OF CUSTODY**

FEBRUARY 2, 2018

COMMENTS AND RECOMMENDATIONS

**CURRENT COMMENTS**

**1. Unconfirmed Capital Assets And Acquisition Amounts**

Comment

During our review of the Department of Revenue Recovery's (DRR) capital assets, we were unable to confirm one (1) of the two (2) capital assets selected for testing to COMPASS. Capital asset #72956 (Hardware and Software – DRR New Collection System) is identified on COMPASS as a Dell server. The identified server is where DRR's DMACS software system is located. However, the servers reviewed during testing where the DMACS software system is stored were Hewlett-Packard servers. In addition, The Hewlett-Packard servers reviewed could not be confirmed to COMPASS.

We were also unable to confirm the acquisition value of the DMACS software system associated with the asset number tested. DRR was unable to produce supporting documentation substantiating the value of the DMACS software system identified on COMPASS and associated with capital asset #72956.

Recommendation

We recommend DRR perform an inventory of capital assets and ensure acquisition amounts associated with capital assets DRR is responsible for are accurately reflected on COMPASS.

Management Response

The DMACS system is stored on the HP server, and the HP server asset #s are 104095 and 104096 in COMPASS. DTECH has not completed the migration onto the Dell server that was ordered and paid in May FY2017-18. ZAMP006 report reflects the acquisition date, cost and book value.

**COUNTY OF SACRAMENTO  
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FEBRUARY 2, 2018

COMMENTS AND RECOMMENDATIONS

**CURRENT COMMENTS**

(Continued)

**2. Missing Inventory Tags**

Comment

During our review of DRR's capital assets, we noted one (1) of the two (2) capital assets selected for testing was not affixed with a County inventory tag. Asset #80039 (Video Surveillance System) is missing a County inventory tag that agrees the capital asset to COMPASS. The physical capital asset agrees to the description noted on COMPASS. But, all County capital assets should be affixed with an inventory tag to confirm its physical description and existence to COMPASS.

Recommendation

We recommend DRR affix inventory tags to all of its capital assets.

Management Response

DRR agrees with the recommendation. Tags have been placed on physical asset and are recorded in COMPASS on 8/23/2018.

**3. Unreconciled Trust Fund Accounts**

Comment

We were unable to confirm DRR's trust account balances for the: 0790796 – DRR Restitution, 0790801 – SSI Interim Checks, 0790806 – DRR Receipts, and 0790813 – DRR Refund trust accounts. There are unreconciled amounts of \$(411,194.15) for the DRR Restitution trust account, \$(167,299.44) for the SSI Interim Checks trust account, \$4,994,455.92 for the Receipt trust account, and \$(875,724.48) for the Refund trust account. The noted differences are between trust account balances noted on COMPASS and DMACS balances provided by DRR. DRR is not regularly reconciling its trust funds and is contributing the unreconciled differences to the February 2009 software system conversion from CARS to DMACS.

Recommendation

We recommend DRR reconcile its trust account balances and perform regular reconciliations between COMPASS and DMACS.

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FEBRUARY 2, 2018

COMMENTS AND RECOMMENDATIONS

**CURRENT COMMENTS**

(Continued)

Management Response

DRR agrees with the recommendation and is working with DTECH to enhance the Reconciliation Module in DMACS in order to perform accurate and timely reconciliations for all trust accounts dating back to DMACS' implementation in 2009. DRR's Cashiering and Fiscal Units have been performing daily activity reconciliations between DMACS and COMPASS for the past 2+ years.

**4. Missing Supporting Documentation**

Comment

DRR was unable to produce supporting documentation for its 10% Withhold trust account (trust account #0790814). The 10% Withhold trust account is used by DRR to retain a portion of contractor payments for its DMACS software provider until specified deliverables are met, or provided, by the contractor. Supporting documentation, reconciliations, and calculations should be maintained for trust accounts in order to substantiate transactions and reported totals. Without adequate records, DRR is unable to validate and support reported trust account balances.

Recommendation

DRR should maintain supporting documentation for its trust account transactions and balances.

Management Response

The 10% Withhold account #0790814 was reserved for \$154,260 to pay when specific work orders had been met/provided. DRR maintained a tracking record which included all work orders, bills and payments. The account was closed in April 2018.

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FEBRUARY 2, 2018

COMMENTS AND RECOMMENDATIONS

**CURRENT COMMENTS**

(Continued)

**5. Debtor Social Security Number Usage**

Comment

DRR used debtor social security numbers for Header Text when posting transactions in COMPASS for the SSI Interim Checks Trust (trust account #0790801). Per Board Resolution #99-0158, DRR debtor account information shall be maintained as confidential. Hence, confidential debtor information should be secured in such a way that only authorized personnel have access to it. Currently, debtor social security numbers are accessible to COMPASS users who may not have the proper authorizations.

Recommendation

DRR should secure confidential debtor information so only authorized staff have access to it.

Management Response

DRR agrees with the recommendation and the 46 records that contained social security numbers in the COMPASS document header were removed on August 22, 2018.

**6. Accounts Receivable Balances for Other County Departments**

Comment

DRR is managing collections of the accounts receivables on behalf of other County departments and other outside entities (Courts, etc.). These accounts receivables and corresponding allowance for doubtful accounts should remain in the accounts of the other County departments within Sacramento County's Financial System (a.k.a. COMPASS) or other records systems of the departments until they are either collected by DRR or the approval is granted by the Board of Supervisors for a relief of accountability.

Per Section VII (Accountability) Part 1 of The Policies Governing the Operation of Revenue Recovery established under Sacramento County Board Resolution #99-0158;

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COMMENTS AND RECOMMENDATIONS

**CURRENT COMMENTS**

(Continued)

*Revenue Recovery is responsible for establishing, maintaining, collecting and accounting for the proceeds of such debts and accounts as are assigned to it for collection. This includes responsibility to:*

- 1. Establish the records for all accounts in a manner that conform to generally accepted accounting and fiscal practices.*
- 2. Maintain accountability over all accounts so established.*
- 3. Pursue a rapid, diligent and systematic collection on all accounts to limit any loss of revenue due to the statute of limitations.*
- 4. Determine, on an annual basis, the current valuation of debts assigned for collection.*

DRR does not appear to be regularly reporting (annually) the accounts receivables referred for collections to County departments under this policy. An annual **valuation of debts** is not being performed and provided to other County departments; therefore those County departments do not know the amounts currently outstanding at DRR to reconcile their accounts receivables.

Recommendation

We recommend DRR establish a policy and work with County departments to ensure that the accounts receivables that are sent to DRR for collection remain within the accounts of the other County departments until they are either collected by DRR or the approval is granted by the Board of Supervisors for a relief of accountability.

We further recommend that DRR provide a periodic report to the other County departments on the collection activity, and if any, accounts granted a relief of accountability. DRR should provide an annual valuation for each County department that accurately identify accounts receivables, in accordance with Sacramento County Board Resolution #99-0158 and to ensure that the County is following generally accepted accounting standards.

**COUNTY OF SACRAMENTO  
DEPARTMENT OF REVENUE RECOVERY  
CHANGE OF CUSTODY**

FEBRUARY 2, 2018

COMMENTS AND RECOMMENDATIONS

**CURRENT COMMENTS**

(Continued)

Management Response

DRR agrees and will work with County departments to ensure that their accounts receivable remains on their books until either paid or approval is received for Relief of Accountability. DRR does send monthly reports to departments/agencies reflecting the referrals and payments received during the month. The annual report is cumulative reflecting all months within the fiscal year. DRR also notifies and provides each department with a report when Relief of Accountability has been approved by the Board on accounts submitted by DRR on their behalf. Once the approval has been received, the County Departments may then write-off the amounts from their accounts receivable.

**7. Reviewing Accounts Collection Balances**

Comment

DRR is managing collections of accounts receivables on the behalf of other County departments and external agencies that are up to 40 years old. But, some of these accounts have not shown any signs of collection activity for an extended period of time and we cannot determine if they are reviewed on a periodic or even annual basis.

Due to the age and inactivity of the accounts noted during our testing, we were unable to confirm if the accounts receivable balances that DRR is collecting on the behalf of County departments and other outside entities (Courts, etc.) are being reviewed on a periodic or annual basis. Per Section VII (Accountability) Part 4 of Sacramento Board Resolution #99-0158, as noted in the Finding Number 6 (Posting of Accounts Receivables and Allowances For Doubtful Accounts), DRR does not appear to be regularly reviewing the accounts for collectability and forwarding the uncollectible accounts for relief of accountability.

Recommendation

DRR should regularly review accounts it is collecting on behalf of County departments and determine which accounts are still valid and collectible and which should be forwarded to the Board of Supervisors for relief of accountability.

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CHANGE OF CUSTODY**

FEBRUARY 2, 2018

COMMENTS AND RECOMMENDATIONS

**CURRENT COMMENTS**

(Continued)

Management Response

DRR collects on behalf of many departments/agencies which require accounts to remain open for extended periods of time; examples include judgments good for 10 years with options for renewal, Chapter 13 bankruptcy cases lasting 3-5 years, debt governed by Social Services which restricts collection when individuals are still receiving public assistance, individuals on probation or incarcerated. In addition, DRR maintains open book accounts for debtors, which means that statute of limitations begins at the time of the last charge or last payment. Therefore, although a debt may be old, any new charge could provide DRR with a new statute of limitations as well as current contact information. DRR regularly reviews and submits uncollectible accounts on behalf of referring departments to the Board for Relief of Accountability. Accounts included in the ROA consist of deceased, bankruptcies, compromises and illegal and uneconomical to pursue. Reviews and submissions are completed on a semi-annual basis.