

Clerk of the Board of Supervisors
Florence H. Evans



Board of Supervisors
Phil Serna – District 1
Patrick Kennedy – District 2
Susan Peters – District 3
Roberta MacGlashan – District 4
Don Nottoli – District 5

County of Sacramento

September 23, 2016

The Honorable Kevin R. Culhane, Presiding Judge
Sacramento County Superior Court
720 9th Street, Department 47
Sacramento, CA 95814

RE: Sacramento County Grand Jury Consolidated Final Report 2015-16

Dear Judge Culhane:

Enclosed is a copy of the Sacramento County response to the 2016 recommendations contained in the 2015-16 Grand Jury Final Report. The Board of Supervisors at their meeting on September 13, 2016, approved this report as submitted with the following recommendations as outlined in the enclosed Board Letter.

If you have any questions, please contact me at (916) 874-8150.

Respectfully,

Florence Evans, Clerk
Board of Supervisors

Enclosures

cc: Navdeep S. Gill, County Executive
Becky Castaneda, Grand Jury Coordinator

Grand Jury Reports: <http://www.sacgrandjury.org/reports/reports.asp>.

Penal Code sections 933 and 933.5 require that the following officials submit specific responses to the findings and recommendations in this report to the Presiding Judge of the Sacramento County Superior Court by September 29, 2016:

- Director, Sacramento County Department of Revenue Recovery – All Findings and Recommendations
- Director, Sacramento County Department of Finance – Findings 23, 24 & 25 and Recommendations 23, 24 & 25.
- County Executive, Sacramento County Executive Office – Finding 4 and Recommendation 4.
- Sacramento County Board of Supervisors – All Findings and Recommendations

Mail or hand-deliver a hard copy of the response to:

Kevin R. Culhane, Presiding Judge
Sacramento County Superior Court
720 9th Street, Department 47
Sacramento, California 95814

In addition, email the response to:

Becky Castaneda, Grand Jury Coordinator at castanb@saccourt.com

The County's response to the Grand Jury 2015-2016 Final Report begins on the following page.

Sacramento County's Revenue Recovery: \$658 Million in Uncollected Debt and Rising

Finding 1: DRR fails to collect the hundreds of millions of dollars in outstanding debts owed to the County.

Department of Revenue Recovery (DRR) Response:

DRR agrees with this finding. While DRR agrees with this finding, it is critical to recognize that approximately \$692 million (over 90% of the \$750 million) of current outstanding debts are subject to numerous regulations which legally and conditionally bar DRR from pursuing collections. By law, DRR collection efforts are suspended until debtors meet the "ability to pay" requirement and then collection efforts are mitigated by the order of payment requirements, which are mandated by statute. Further, DRR collection efforts are constrained by programs which permit debtors to settle their accounts through non-monetary means. In addition, in order to determine ability to pay and process debts in accordance with various regulations; DRR must maintain debts in its system for what may seem an unacceptable amount of time and at a low rate of recovery, causing the total outstanding unpaid debt to grow disproportionately as compared to annual collections. Roughly \$150 million (20% of the \$750 million) of DRR's entire receivables is collectable over time, of which DRR collected \$44 million dollars in FY 2015-16. The remaining \$106 million dollars is either collected in later years, based on ability to pay, or written-off.

Amount of Outstanding Debt Governed by Regulations That Bar or Delay Collections				
	By Category (in Million \$)	Regulations Bar or Delay Collections	2016 Amount (millions)	Ratio
1.	Payment Priority 1 Restitution, 2 State Surcharge, 3 Fines, Penalties, Assessments, and 4 Service & Other fees	Payment Priority PC 1203.1d	\$295	39%
2.	Ability to Pay: General Assistance Repayment, Sheriff, Probation, Indigent Defense, & Other Fees	Ability to Pay WIC 903, and WIC 903.1-3PC 1203, PC 1203.1b-c, PC 1209, & Payment Priority	\$216	29%
3.	Aid Overpayments	Welfare Regulations 40-030 and 44-352	\$90	12%
4.	Warrants	May be Resolved by Non-monetary Means (court date)	\$88	12%
5.	Other Amounts & Customer Agency Debts (Code, Building, Animal Care, Medical Care, court fees, judgment interest, prior write-off, etc.)	Various Conditions	\$61	8%
	Totals		\$750	100%

DRR's Outstanding Debt By Major Regulations Category

Below are specific examples of the limitations on collection that DRR must grapple with:

- \$295 million of uncollected debt is subject to Penal Code 1203.1d, which governs how installment payments must be applied to court ordered amounts. The mandatory order of payment for amounts is as follows: victim restitution; state surcharge PC 1465.7; fines, penalties, assessments; and finally, if the individual has the ability to pay, other reimbursable costs, including but not limited to, Sheriff, Probation, Confinement, and Indigent Defense fees.
- \$216 million of debt such as General Assistance Repayment, Sheriff's confinement and booking fees, Probation supervision and pre-sentence reports, indigent defense, and other fees are not due until the individual has met the legal "ability to pay" requirement. Debts based upon "ability to pay" are due after the debtor has met their basic living expenses for themselves and their families. Allowable expenses include but are not limited to, housing, utilities, food, transportation, medical care, child care, insurance, child support payments, student loan payments, and taxes. In addition, in cases where an individual has been ordered to pay court fines and/or victim restitution, the amounts ordered further reduce the defendant's ability to pay reimbursable costs to the County. The following are examples of codes that govern "ability to pay:" PC 1203, PC 1203.1b-c, PC 1209, WIC 903, and WIC 903.1-3.
- \$90 million of debt is governed by California Department of Social Services Welfare Regulations (40-030 and 44-352) which restrict collection actions when individuals are still receiving public assistance in which case only small amounts may be deducted from the recipient's aid as repayment. It may take several years, if ever, for a former aid recipient to get back on their feet and make regular payments.
- \$88 million of debt is for outstanding Failure to Pay Warrants, where the court order has no expiration date and the warrant may be cleared by setting a court date instead of payment.
- \$61 million are debts from departments, previously written off items, judgment interest, liens, court costs due only if collected, and other miscellaneous items.

Additional regulations make it cost effective to keep certain outstanding debt on the system in automated monitoring in order to take advantage of the long period of collection opportunity.

For example:

- Victim Restitution Orders and certain fines are enforceable for the life of the defendant in accordance with PC 1202.4(m) and PC 1214(a).
- For most felony and misdemeanor cases, in accordance with Penal Code 1203 and other codes, defendants may be ordered to serve a probationary period up to five years, or in an amount ordered by the Court. If probation is revoked and reinstated, the probationary period stops and then resumes, extending the probation end date for the case beyond the original probationary period. Since these amounts are paid in priority order subject to PC 1203.1d and payments are set based upon "ability to pay", the length of time individuals need to pay all amounts ordered may extend many years beyond the initial probationary period.
- California Department of Social Services Welfare Regulations 20-403 permits the submission for state tax refund intercept of unpaid CalFresh and CalWorks overpayments for up to 10 years and IRS refund intercept with no time limit.

- However, welfare regulations also prohibit collections if, among many other circumstances, benefits are being reduced to repay prior period overpayments. Deductions from aid received are typically very small versus aid owed.
- Civil court judgments are valid for 10 years and may be renewed every 10 years in accordance with CCP 683.110. Liens against an individual are effective for 10 years and up, depending on the type of lien and governing code.
- In accordance with the Fair Credit Reporting Act, credit reporting of eligible debts may be done for seven years from the 1st date of delinquency. Recent changes in law permit only a very small portion of DRR debts be credit reported; only those that are associated with goods or services; specifically prohibited are fines, restitution, aid overpayments, and many other debts.
- Chapter 13 bankruptcy cases can last three to five years and collection must be suspended during that timeframe. Therefore, three to five years may pass before collection actions can resume.

Recommendation 1: DRR should employ alternative solutions to recover the hundreds of millions of dollars in outstanding debt owed to the County

Department of Revenue Recovery Response:

This recommendation has been implemented. DRR has implemented a number of solutions to improve the recovery of revenue since conversion to the new system, such as submitting more eligible debt to Franchise Tax Board's collection programs, collecting accumulated delinquent debt in customer agencies systems, implementing system enhancements, a better dialer that is integrated with DMACS, access to imaged documents from the debtor's account to resolve inquiries and collect sooner, creating numerous collection activity and inventory management reports, and procedure changes to assist customer agencies collect more revenue prior to referral to DRR.

Further, while DRR uses all legal means to collect, multiple regulations limit the methods of collection depending on how the particular debt is characterized. Examples of these limitations are as follows:

- **Franchise Tax Board's Tax Offset Program** – This program diverts state income tax refunds and lottery winnings to DRR for payment of debts that are more than 90 days delinquent. Almost \$400 million in eligible debt was submitted and \$3.8 million or 1% was collected by the program in FY 2015-16 because debt eligibility criteria are governed by Revenue & Taxation Code 19280(a) and Government Code 12419.10, where only fines, penalties, assessments, victim restitution, and other court judgments are eligible for submission to the program.
- **IRS/FTB Tax Offset and Court Ordered Debt Programs** – This program allows eligible CalFresh and CalWorks overpayments to be submitted for recovery. Over \$7.5 million was submitted and \$2.1 million (39%) was collected by the program in FY 2015-16 because debt eligibility criteria are governed by California Department of Social Services Welfare Regulations 20-403, and only eligible aid (CalFresh) overpayments are eligible for submission to the program.

Similarly, the FTB's Court Ordered Debt program allows the County to pursue amounts submitted in the same manner as delinquent income taxes. However, almost \$60 million in eligible debt was submitted and \$8.2 million (or roughly 14%) was collected by the program in FY 2015-16 because program debt eligibility criteria are governed by Revenue & Taxation Code 19280-19282 and fines, penalties, assessments, victim restitution, Sheriff, Probation, indigent defense, and other court ordered amounts are eligible for submission to the program for additional collection action.

- **Legal actions** – Over \$1 million was collected from these actions in FY 2015-16. Legal actions include lawsuits, liens, wage garnishments, monies due levies and other legal actions are vigorously pursued where cost effective. Due to resource limitations, the Sacramento Superior Courts are limited in the number of cases that can be heard by the court. For example, the Small Claims calendar for government entities is limited to 30 cases per month, and all entities in this category, such as the City of Sacramento, SMUD, and others must share those 30 slots.
- **Credit reporting** – Very few of DRR's debt types are eligible for credit reporting. Amounts placed for collection are limited to consumer type debt like Animal Care fees and bounced checks. Credit reporting is not permitted for fines, restitution, aid overpayments, and other penalties and assessments. Out of 300,000 accounts with a balance, roughly 200 accounts per month contain charges eligible for credit reporting. Payments are included in general collections since the amount of debt eligible for credit reporting is so small.

Finding 2: DRR management rarely uses reports to manage collection activity and workload.

Department of Revenue Recovery Response:

DRR disagrees with this finding. DRR regularly uses a number of long standing reports and automated features in DMACS to manage collection activity and workload. Reports are regularly generated in order to monitor, measure, manage and distribute work to staff, evaluate the results of collection activity in relation to budget targets and revise efforts accordingly, identify changes in workload to ensure appropriate resources are directed to new, growing or shrinking caseloads, analyze cost allocation reports to manage collection activity in a cost-effective manner, identify procedural or resource changes needed to improve cost ratios and/or recovery rates, and manage, staff and work priorities based upon seasonal workload changes.

Examples of other reports DRR uses to manage caseload and collection activities are as follows:

- The Dashboard Report, which contains fiscal year to date information about each type of debt such as; budgeted collections, actual collections, projected collections, and variance is used to monitor collection results in order to direct collection activities and to ensure budgeted targets are met.
- The AR-Recap by Fac. Code Report (Figure 2 above), which contains fiscal year to date information for each type of debt such as beginning and ending accounts receivables, net charges and payments collected, net unpaid amounts returned to the court or other agency, net write-offs, net compromise adjustments, and the Year to Date recovery rate is

- used to monitor trends in the data and adjust staffing or collection activities accordingly.
- The Activity Report contains records by time and date, of all financial transactions, payment arrangements, data updates, phone calls, and other work completed by staff or through automated processes carried out by the system. The data is used to make decisions regarding work priorities, staff assignments, and other caseload management decisions to collect revenue efficiently and effectively.
 - Cost Allocation Reports for each customer agency contain monthly detail of costs for work performed by cost center, by month and year to date, the revenue collected each month, the cost to collection ratio, and the inventory activity for each customer agencies' caseload. These reports are used to ensure work is done cost effectively and make adjustments in activity as needed.
 - Cisco Reports monitor dialer and staff activity and contain call volumes; call results for every 1/2 hour or other time increments such as number of contacts, messages left, average talk time, wrap up, and other data.
 - The DMACS Dialer Trends Report tracks call result activity such as no answer, busy, answered, answering machine, etc.
 - COD Reports show the value and number of amounts submitted to the FTB's Court Ordered Debt (COD) Program, activity COD has taken on cases such as notice sent, or wage garnishment or bank levy issued, and reasons uncollected amounts are being returned, such as a higher priority case exists or assets can't be found.
 - Inventory Reports contain data such as: charge date, original balance, current balance, date and source of last payment, pertaining to customer agency accounts, and are used to identify the most cost-effective accounts to work and direct effort accordingly.
 - The Skip Trace Work Queue Report contains information regarding accounts that need contact information such as phone number or address, which is used to work the accounts that are not processed by the dialer (automated outbound calling system). The report assists supervisors and managers to identify the most cost effective accounts to work first.
 - Aging Reports break the caseload into categories by the amount of time they have been in the system, such as 1 – 30 days, 31 – 60 days, 61 – 90 days, 91 – 180 days. The report also provides the date of last payment, account balance, and source of last payment made. This report is used to prioritize work by specific charge types if desired.

The Grand Jury reported, according to IT witness testimony, there are no DMACS Reports available to identify the outstanding debt owed the county and that this was the first and only time this report was ever requested. The “*Charge Source Recap Report*”, which addresses outstanding debt owed the County, is already available in DMACS within the Management Report menu. The “*Charge Source Recap Report*” identifies the outstanding debt as it contains the net charges referred, payments, write-offs, adjustments, and ending balance for each charge type in the DMACS System, as well as for each customer department, and for the entire caseload, for any given period of time (day, week, month, year, or user specified date range). In addition, the DMACS System contains an “export” feature that allows system reports to be exported to an EXCEL file and then used in numerous ways for analysis and decision making purposes.

Figure 1 below shows the location of the report in the DMACS system and then a sample of the data contained in the report follows in Figure 2 below.

Figure 1 Location of Charge Source Recap Report in DMACS

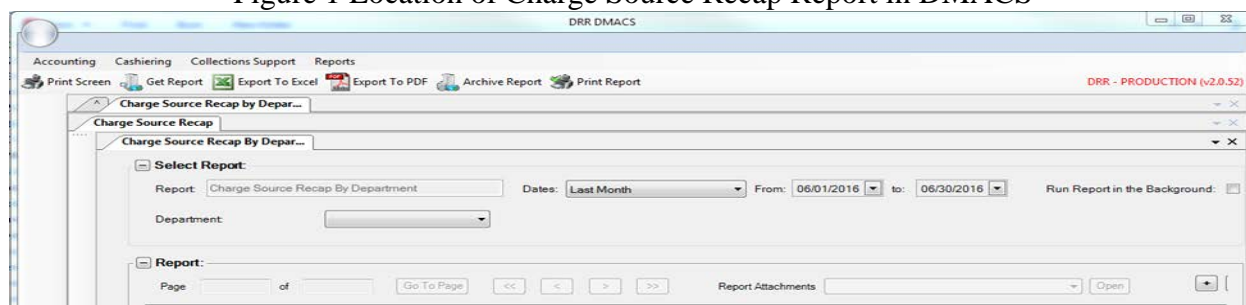


Figure 2 - AR-Recap by Fac. Code Report Sample

	B	C	D	E	F	G	H	I	J	K
1	FY 2015-16 CHARGE SOURCE RECAP									
2	AS OF JUNE 2016									
3	C/S CODE	DESCRIPTION	FY 2015-16 BEGINNING A/R BALANCE	NET CHARGES	NET PAYMENTS	NET RTC'S/REF DEPT	NET WRITE-OFFS	NET ABILITY ADJUSTMENTS	NET COMPROMISE ADJUSTMENTS	FY 2015-16 ENDING A/R BALANCE
34	CEB6	ZONING ENFORCEMENT ADMIN FEES	129,386.13	22,297.44	(47,527.74)	-	10,136.20	-	(10,972.50)	103,319.53
57	DCP6	STREET CONSTR. ENCROACHMENT	131,746.60	115,944.41	(37,500.64)	5,105.10	-	-	-	215,295.47
70	EMAT	EMERGENCY MEDICAL AIR TRANSPORT	55,723.45	18,622.29	(13,632.77)	42.02	-	-	-	60,754.99
71	EST1	PENDING GENERAL ASSISTANCE REPAYMENT	29,190,684.27	2,131.00	(32,739.39)	-	4,160.00	(15,302.85)	-	29,148,933.03
77	FPA6	DNA IDENTIFICATION FUND	1,124,604.25	226,664.99	(182,152.11)	136.39	-	-	-	1,169,253.52
138	FSFX	COURT CONSTRUCTION PENALTY	3,297,882.90	892,621.64	(729,495.03)	694.95	-	-	-	3,461,704.46
143	HAC3	MEDICALLY INDIGENT-LEADSUIT LIEN/INSURANC	6,228.46	(33,146.08)	-	-	-	-	-	(26,917.62)
232	MCAF	COURT FINE REFERRALS	38,338,196.78	29,548,708.07	(15,754,401.30)	(23,060,277.70)	-	-	-	29,072,225.85
314	PDR1	PUBLIC DEFENDER REIMB(MUNI CT)	3,706,201.70	29,259.67	(112,257.68)	-	1,554.64	(10,795.74)	(445.65)	3,613,516.94
324	PSR1	PROBATION SUPERVISION FEES	80,414,002.45	7,306,754.95	(1,987,673.11)	252,975.75	15,637.63	(532,838.01)	(7,055.38)	85,461,804.28
333	PWC4	PUBLIC WORKS RETURNED CHECK	-	-	-	-	-	-	-	-
334	PWR1	PUBLIC WORKS RETURNED CHECK	188,125.03	9,868.29	(1,385.81)	-	-	-	-	196,607.51
353	RST1	RESTITUTION-MUNI COURT-SUMMARY PROBATION	22,391,006.14	4,531,321.41	(1,155,325.49)	(300,676.20)	-	-	-	25,466,325.86
355	RST3	RESTITUTION-JUVENILE DIV-SUPR COURT	18,064,823.89	466,574.29	(816,446.02)	-	-	-	-	17,714,952.16
367	SBFB	BOOKING FEE - UNINCORP. AREA - RCCC	63,016.87	3,064.13	(2,795.97)	-	-	(115.72)	-	63,169.31
435	WGA1	GENERAL ASSISTANCE REPAYMENT	18,406,631.42	20,585.93	(59,295.49)	-	(2,367.72)	-	-	18,365,554.14
464	WLX7	AFDC OVERPAYMENT-FG (NON-FRAUD)	11,690,731.26	1,046,218.15	(530,043.09)	-	10,063.18	-	-	12,216,969.50
520	DCD2	CODE - HOUSING CODE	-	541,907.70	(182,913.53)	-	6,210.17	-	-	365,204.34
537										
538										
539		TOTALS	730,915,986.77	90,712,644.13	(43,970,461.48)	(24,867,377.28)	513,970.28	(1,381,266.54)	(169,459.17)	751,754,036.71
540										
541										
542										

Recommendation 2: DRR should develop and use collection activity reports to effectively manage DRR's collection activities and workload.

Department of Revenue Recovery Response

The recommendation has been implemented. DRR has been using a multitude of reports to effectively manage DRR's collection activities since conversion to DMACS in 2009. Said reports are described in detail in the response to Finding 2 above.

Finding 3: DRR management fails to work together effectively to manage the department and the revenue collection activities.

Department of Revenue Recovery Response

DRR disagrees partially with the finding. DRR management works together effectively to manage the department and collection activities, with regularly scheduled standing meetings, email updates, and daily communication to review, discuss, and adjust work plan priorities, system enhancements, procedure revisions, customer agency requests, and many other collection activity matters. While some communication gaps exist, the chart in Figure 3 below shows DRR management and supervisors effectively managed the department and revenue collection

activities to lead the department in meeting or exceeding budgeted collection goals, identifying and implementing cost savings and collecting as much revenue with 40% less staff and 50% fewer charge referrals compared to 2008 pre-DMACS years using the CARS system. DRR has a culture of continuous improvement, encourages suggestions for improvement, and then implements the most cost effective procedural revisions and system enhancements based upon regulatory changes, client agency procedural changes, impact on operational priorities, and available resources. DRR has increased the recovery of revenue from \$41 million in FY 2013-14 to \$44 million in FY 2015-16.

Figure 3 Comparison of Revenue Recovery the Last 3 Years using DMACS and CARS

DRR Historical Data	CARS			DMACS		
	2008-09	2009-10	2010-11	2013-14	2014-15	2015-16
Net Charges (millions)	132.1	139.1	136.6	97.0	95.7	90.7
Net Payments (millions)	(42.0)	(42.9)	(44.8)	(41.0)	(42.2)	(44.0)
Recovery Rate	32%	31%	33%	42%	44%	49%
Position Budget Unit Total	105.0	106.0	101.0	58.0	57.0	57.0
Total Appropriations - Adopted (millions)	11.5	12.2	14.0	11.3	10.9	11.0
Total Appropriations - Actual (millions)	10.3	11.6	12.7	10.1	10.2	9.7
Savings	1.2	0.6	1.3	1.2	0.7	1.3

Recommendation 3: DRR management should work together to manage and improve the department's revenue collection efforts and reduce the outstanding debt owed to the County.

Department of Revenue Recovery Response

The recommendation is implemented. While DRR management has worked together effectively over the years, DRR management and supervisors identified and implemented steps to further improve communication and thereby manage and improve revenue recovery. Additionally, standing meetings with staff will close the gaps in communication throughout the organization, and DRR management added quarterly meetings to purposefully step back and reflect upon plans in progress, review priorities, and make operational adjustments as needed. As shown in the chart above, the amount and rate of recovery has steadily increased over the past three years.

Finding 4: The Board and CEO have not exhibited any apparent concerns or provided adequate oversight for the collection of revenue through the DRR.

County Executive Office Response

The County Executive Office (CEO) disagrees with the finding. All county departments (including DRR) are required to provide the CEO's Office of Financial Management (OFM) a budget plan which includes expenditures and revenue projections for the ensuing fiscal year. After the budget is adopted by the Board of Supervisors, OFM requires departments to submit quarterly financial status reports, documenting realistic year-end projections of their revenues and expenditures, provide explanation of anticipated variances from the approved budget, and identify if corrective actions are needed during the year. The departments are also required to provide a detailed explanation of any outstanding revenue accruals. OFM staff analyzes this

documentation, specifically the major revenue sources for the fiscal year, and uses quantitative data to compare the actual collection of revenue to the budget amounts as well as to actual collections from previous fiscal years. Additionally, OFM staff monitors DRR's expenditures and revenues throughout the year and uses all of the data to assess the current year fiscal status of DRR, and identifies any problems that may need to be addressed.

Furthermore, the Chief Deputy County Executive – Internal Services (CDCE-IS) meets with the Director of Revenue Recovery on a bi-monthly basis. The CDCE-IS requires revenue collection and Accounts Receivable Efficiencies Project updates, as well as revenue collection status reports. In addition to reviewing the actual collection of revenue compared to budgeted amounts, discussions with the CDCE-IS are held regarding operational matters and initiatives that may affect collections such as increases (or decreases) in amounts, and regulatory or customer department policy issues. These regular meetings and updates to the CDCE-IS have resulted in effective monitoring of revenue collection progress to ensure DRR budget targets are met.

Department of Revenue Recovery Response

Department of Revenue Recovery agrees with the County Executive Office

Recommendation 4: The Board and CEO should consider a management review of the Department of Revenue Recovery.

County Executive Office Response

The recommendation will not be implemented. The CEO's Office has practices and procedures in place to review, analyze and monitor the department's revenues and expenditures continuously throughout the year as well as periodic meetings to discuss and review operational matters, provide updates on collection activities, changes in legislation, government regulations and/or any initiatives that may affect DRR revenue collection efforts.

Department of Revenue Recovery Response

Department of Revenue Recovery agrees with the County Executive Office

Finding 5: DRR did not use a competitive bid process to secure services on the County's behalf. The Board of Supervisors approved and awarded a \$4.4 million contract for the development of the DMACS

Department of Revenue Recovery Response

DRR agrees with the finding. At the time of the contract, the DMACS system is/was a proprietary system that could not reasonably be competitively bid. Therefore, the requirement to competitively bid the DMACS contract and system build out did not apply.

The DMACS project was originally approved as part of the May 11, 2005 Fiscal Year 2005-06 Recommended Proposed (Base) Budget package. DRR's IT Manager at the time, conducted an

analysis of system replacement options, and given the County's budget situation at the time, approval of an affordable in-house project and loan funding was approved.

The Fiscal Year 2007-08 Recommended Proposed (Base) Budget revealed a \$33 million gap in unfunded budgetary needs. While DRR's IT Manager warned of the precarious state of DRR's then Columbia system, in that budget climate, DRR was not in a position to bring forth a funding request for a full system replacement project, particularly when the framework of the system was already built. Therefore, DRR had to move forward with the best option available at the time, which was to replace a time and materials cost model with a fixed price contract to complete a portion of the system but not an entire system due to restricted funding. Consultation with the County's Purchasing office resulted in a determination that the bid process was not practical due to the unique factors involved. The contract was developed with active oversight from the DMACS Executive Steering Committee, which was comprised of the Director Department of Revenue Recovery, the Internal Services Agency Administrator, the Chief Information Officer, and the OCIT IT Division Chief. Other considerations with the then existing system that contributed to the County's decision to move forward with the DMACS system are as follows:

- DRR had added four contract staff to supplement five DRR IT staff that were supporting and maintaining DRR's deteriorating Columbia accounts receivable system. The cost to maintain the Columbia system and fund the DMACS project was unsustainable.
- The DMACS system was already partially developed with limited allocation of funds provided in prior years.
- Options at the time were evaluated – costs for vended systems were unaffordable. Columbia Ultimate had stopped providing system support to the DRR system in use, so county staff supported the system with a mix of contract and county staff.
- DRR's IT Manager at the time, reported in a memo dated 1/27/2005, that Columbia was experiencing their own difficulties with the new system Columbia had in development.
- The County subsequently discovered the \$1.5 million estimate Columbia Ultimate (Craig Nelson) provided to the Board in an email dated 12/06/2010 did not include \$7 million in implementation costs that San Diego County paid Columbia Ultimate for a total of \$8.4 million in system costs.

Recommendation 5: The Board of Supervisors should require County agencies to use a competitive bid process to contract for services over a specific dollar amount.

Department of General Services - Purchasing Response

The recommendation has been implemented. Prior to the issuance of the Grand Jury's Report, the Sacramento County Code contained competitive bid requirements and the exceptions thereto. As stated in the Response to Finding 5 above, Sacramento County Code, Sections 2.56.230 and 2.56.250 provide the legal basis for competitive bidding and any permitted deviations from that requirement.

The DMACS contract was issued in compliance with Sacramento County Code, Section 2.56.250, entitled "Competitive Bidding Required", which provides "(P)urchases may, but need not be, let pursuant to competitive proposals under the following circumstances:"

1. When a patented or proprietary item is being purchased; or

2. In the event of an emergency; or
3. When the following types of personal property or services are being acquired, obtained, rented or leased:
 - a. advertising;
 - b. books, recordings, motion picture films, subscriptions;
 - c. election supplies;
 - d. insurance;
 - e. public utility services;
 - f. travel services;
 - g. property or services provided by or through other governmental agencies; or obtainable from suppliers which have in force a current contract with another governmental agency for the same item or service; or
 - h. property or services the price of which is fixed by law; or
4. When the Board of Supervisors determines that making of a purchase without competitive proposals is reasonably necessary for the conduct of County business. (SCC 594 §2, 1984).”

DRR complied with state and local law because the DMACS system is of a unique character, and is/was a proprietary system that could not reasonably be competitively bid.

Department of Revenue Recovery Response

DRR agrees with the Department of General Services.

Finding 6: DRR failed to monitor its revenue recovery system and adjust collection efforts to reduce the outstanding debt.

Department of Revenue Recovery Response

DRR disagrees with this finding. The response to Finding 2 above discusses in detail the numerous ways DRR monitors its system to adjust and manage collection efforts in order to target the most cost effective accounts to pursue. The Figure 3 chart in Finding 3, shows DRR has collected as much revenue with DMACS as with the previous CARS system with 44 (40%) less staff, 101 then and 57 now, and \$45 million (50%) fewer annual referrals, \$137 million then and \$91 million now. The following chart compares DRR’s Cost to Collection Ratio and revenue Recovery Rate with DMACS and CARS.

	CARS			DMACS		
	2005-06	2006-07	2007-08	2013-14	2014-15	2015-16
Cost to Collection Ratio	16%	15%	17%	10%	10%	9%
Recovery Rate	32%	31%	33%	42%	44%	48%

Recommendation 6: DRR should regularly monitor its revenue collection system and adjust collection efforts to reduce the outstanding debt owed to the County.

Department of Revenue Recovery Response

The recommendation has been implemented. As discussed in the Response to Finding 6, above, DRR effectively monitors its system to optimize collections. DRR collects as much now with DMACS as it did prior to the 2008 conversion, but with 40% less staff, 101 then and 57 now, and 50% fewer annual receivables, \$137 million then and \$91 million now.

Finding 7. DRR has failed to meet its proposed revenue recovery collection goals of 38% and has not considered any other cost-effective revenue collection alternatives.

Department of Revenue Recovery Response

DRR disagrees partially with this finding. DRR did reach a 37% revenue recovery rate in 2011 and is now at 48% in 2016. The \$44 million recovery value in 2016 compares rather favorably against the record high \$45 million recovery value in 2008, when one considers the \$45 million (50%) drop in customer agency annual referrals from \$137 million in 2008 to \$91 million 2016. As to the use of cost effective collection alternatives, all legal collection methods are used to collect revenue. As was detailed in response to Finding and Recommendation number 1 above, regulations and other factors limit the legal mechanisms one may use to pursue debt, depending on the type of debts at issue.

DRR Historical Data - DMACS					
	2011-12	2012-13	2013-14	2014-15	2015-16
Net Charges (millions)	108.9	118.7	97.0	95.7	90.7
Net Payments (millions)	39.8	41.4	41.0	42.2	44.0
Recovery Rate	37%	35%	42%	44%	48%

The calculation used to cite a 6% revenue recovery rate in the Grand Jury Report is not the same calculation for the 32% benchmark revenue recovery rate that DRR used in the project memos to the Board dated May 11, 2005, and May 15th 2005.

DRR's revenue recovery rate divides annual collections by annual receivables while the calculation used in the Grand Jury Report, is annual collections divided by total receivables. DRR's calculation uses consistent time periods (annual vs. annual), and aligns more favorably with the county's annual budget period, and better illustrates the collection effectiveness of improvements from year to year.

Recommendation 7: DRR should consider other cost-effective replacement alternatives for the DMACS.

Department of Revenue Recovery Response

This recommendation will not be implemented. Replacement of the DMACS system is difficult

to justify when one examines the actual results DRR has been able to achieve while using the system with fewer resources and reduced staff:

- With \$46 million fewer receivables and 50% fewer staff, DRR is collecting as much revenue with DMACS as with the previous CARS system. Figure 3 above compares DRR's results using DMACS and the prior CARS system. The results attest to the fact the DMACS system is meeting DRR's business needs.
- The pattern of increased collections and holding of expenditures at a stable level despite increased labor costs associated with labor agreements, demonstrates the enhancements implemented in the last 2 years have had a positive impact on DRR operations.
- The type of debts DRR handles have very complex processing rules, and replacing DMACS does not change those regulations nor the regulations that bar, condition, or delay collection action. The response to Finding 1 in this report describes the numerous regulations that delay or bar collection efforts until mandated "ability to pay" or other conditions are met. Numerous regulations make it advantageous to keep debts in the DRR system for long periods of time causing unpaid debt to grow at a disproportionate rate compared to annual collections.

Furthermore, DMACS is not a simple standalone system that can be easily swapped out for a new one. Any new system would incur significant cost to be integrated with numerous County enterprise systems such as:

- telephone system
- automated dialer
- interactive voice response system
- automated caller distribution system
- call recording system
- electronic document system
- numerous internal and external file exchanges with other systems
- network infrastructure
- redundant failover

Additionally, DTech staff is able to support the system and have reduced the use of contract IT staff from four to five full time equivalents at conversion to two to three full-time equivalents. As DTech notes, which is identified later in this response, a system replacement project would be a multi-year project, and would duplicate system costs for that period, making it difficult to justify diversion of funds to replace a system that is meeting business needs. A new system may not be any better given the type of debts in DRR's caseload.

When all factors are considered, it makes more fiscal sense to implement cost effective enhancements to DMACS instead of replacing the entire system.

Department of Technology Response:

DMACS is meeting the department business needs. From a technology perspective, the system is reliable and typically meets an uptime performance metric of 99.7%, which is the standard for most line of business systems in the County. The Department of Technology (DTech) will add DMACS to its monthly performance metrics to track and ensure an uptime standard for 99.7%.

The replacement of a large, complex business system such as DMACS is a considerable undertaking, requiring the formation of a project team to develop a request for proposals (RFP), participate in vendor selection, negotiate a contract, and implement a new system. Implementing a system of this complexity would be a multi-year project.

Finding 8. DRR does not have an established method for monitoring agency client accounts.

Department of Revenue Recovery Response

DRR disagrees with this finding. DRR uses a number of procedural and automated methods to actively monitor and manage client accounts.

The Collection Enforcement Supervisors use inventory and other numerous reports generated out of DMACS and then exported to EXCEL, as described in the response to Finding 2, which contains a wide variety of data about the accounts that are used to distribute accounts for staff to work in priority order. A number of factors determine the level of monitoring and review of client agency accounts based upon characteristics of the account.

Examples are as follows:

- Type of charges on an account. Traffic fines are more collectable than felony or misdemeanor case fines; aid repayments are less collectable since individuals may still be receiving public assistance, have no income, or are a low wage earner, medically indigent charges are less collectable since individuals are generally low wage earners; etc..
- Amount of unpaid balance. Low balances are not cost effective to manually review as costs could easily exceed the amount owed.
- Number of debts on an individual's account. Individuals with numerous charges are generally in adverse life situations such as low wage earners, on fixed incomes such as public assistance or social security, convicted of criminal offenses, homeless, etc.
- Payment history and source of payments (if any). Recent voluntary payments make the account more collectable. Involuntary payments, such as tax refund intercept, wage levy, and other miscellaneous payments make the account less collectable.
- Financial condition of the individual. Factors such as owning property or gainful employment affect the collectability rate. The better the individual's financial condition, the more collectable the account will be.

In addition, account monitoring is done with DMACS automation because it is the most cost effective way to process the type and volume of debts in DRR's caseload. As described in the response to Finding 1 and Recommendation 1, a significant portion of the DRR caseload will never be collectable due to governing regulations that suspend or bar collection efforts for long periods of time, or are in perpetuity if the individual's financial condition never meets the mandated "ability to pay" requirements. Automated monitoring methods are supplemented with report supervisors. They monitor and manage client accounts and provide direction to staff for working the most collectable accounts first.

Once an account is established in the DMACS system, automated monitoring and processing begins:

- If contact data or employment information is missing, the system will submit requests to Department of Motor Vehicles, Employee Development Department, and other systems in an effort to obtain the data needed, and then repeated searches by the system are done at specified intervals, significantly reducing the manual searches by staff.
- Notices and statements are generated at specified intervals as are other eligibility rules.
- Based upon business rules, eligible accounts with phone numbers are called by an automated dialer in an effort to make contact with the debtor. If phone numbers are missing, the system searches data sources at specified intervals to locate contact information. In addition, the accounts can be accessed by staff in the DMACS Skip-Trace Review work queue. The report can also be exported to EXCEL for additional sorting and filtering to target the most collectable accounts first.
- Data updates from other systems include information such as: whether an individual is on aid, receiving wages (if any), receiving unemployment or disability benefits, deceased, out of state, and then automated business rules process the accounts as needed.

Recommendation 8. DRR should establish a method for monitoring agency client accounts.

Department of Revenue Recovery Response

This recommendation has been implemented. Prior to the issuance of the Grand Jury's Report, DRR supervisors and managers regularly used a wide variety of reports and automation to monitor agency client accounts. They are described in detail in the response to Finding 8 in this report.

Finding 9. DRR does not provide its agency clients with updates of debtor account collections on a regular basis.

Department of Revenue Recovery Response

DRR disagrees with this finding. DRR provides regular updates to agency clients regarding debtor account collections.

A comprehensive monthly financial report of the customer department's caseload activity, the Cost Allocations Summary Agency Client report, is provided to agency clients. It contains a monthly breakdown of costs by cost center category, collections by charge type, cost to collection ratio, referrals (Refer Summary tab), receivables information (ARRecap tab) such as: beginning AR balance, net charges, net payments, net adjustments, net returns to court, net write-offs and ending AR balance, breakdown of collections by charge type (Collection Summary tab), and other information.

Figure 5 Cost Allocation Summary Agency Client Report

A	B	C	D	E	M	N	O	P	Q
1			D.R.R. COST ALLOCATION FOR FY 2015-16						
2									
3									
4		Dept.#	DEPARTMENT	JULY	AUGUST	APRIL	MAY	JUNE	TOTALS
5		30B-4	MSA Com. Dev. Code Enforcement	25,043.32	27,708.42	22,936.26	31,779.64	46,213.91	307,048.64
6		120393	Ability Adjustment	-	-	-	-	-	-
7		120395	Account Follow-Up	19,241.60	23,530.29	19,666.17	22,058.11	33,406.44	247,977.39
8		120397	Legal	-	-	-	-	-	14.10
9		120403	Legal - Title & Abstract	-	-	-	-	-	5.13
10		120406	Collection Support & Adm	5,105.65	2,962.90	2,303.39	8,375.45	11,203.36	46,616.58
11		120415	Restitution	-	-	-	-	-	-
12		121275	Payment Processing	696.07	1,215.23	966.70	1,346.08	1,604.11	12,435.44
13			Cost JV#	108662259	108683134	108856445	108881142	108885694	
14									
15				015 to January 2016 had been					
16			Distribution JV#	108624722	108639473	108825480	108847801	108873925	Total Revenue
17			To Revenue	168,205.86	135,392.16	123,861.36	189,874.09	192,642.59	1,774,223.67
18									
19									
20			COST TO COLLECTION RATIO	14.89%	20.47%	18.52%	16.74%	23.99%	17.31%
21									
22									

Customer agencies appreciate the convenience of the self-service Client Services feature in DMACS which enables them to review their accounts at their convenience to see the account status, if the payment plan is current or delinquent, to check for payment, account balance, view transactions, and other data. In addition, customer departments have the ability to generate a payment report for any specified time period.

Further opportunities for client department updates are as follows:

- DRR management, supervisory, or other staff, meets regularly with customer agencies to review cases with legal action in progress, review their program's caseload information, assist with internal collection processes, revise service levels, coordinate or monitor changes in response to procedural, regulatory, or automation changes, and to maintain open channels of communication. DRR meets with customer agencies monthly, quarterly, or other frequency as desired.
- Monthly meetings with Department of Human Assistance staff are held to coordinate and review operational processes.
- Environmental Management Department (EMD) staff meets with DRR each quarter to review costs, collections, and specific cases in their inventory for status updates and discussion of next steps.
- Monthly meetings with the Traffic Court Division and quarterly meetings with the Superior Courts are held for communication purposes, and to coordinate procedural and system enhancements.
- Meetings with the Community Development Department to coordinate the semi-annual lien hearing process and other operational processes also occur.

Recommendation 9. DRR should provide its agency clients with updates of debtor account collection activity on a regular basis.

Department of Revenue Recovery Response

This recommendation has been implemented. Prior to the Grand Jury Report, DRR has regularly provided its customer agencies comprehensive reports, regular meetings, and read only access to DMACS's self-service feature where they may review their accounts at their convenience. For more detail, see the response to Finding 9 in this report.

Finding 10. DRR's established payment policy guidelines are not consistently followed.

Department of Revenue Recovery Response

DRR agrees with this finding. DRR payment guidelines vary to fit the variety of conditions and regulations that apply to DRR debt. Different types of debt invoke different collection guidelines and policies due to the regulations associated with the type of debt. Thus, debts with the collection for which an individual's "ability to pay" is the minimum threshold may include repayment terms that differ from court ordered conditions such as terms of probation (amount of time to pay), and have different payment requirements depending on the individual's amount and source of income. DRR operations promote efficient collection of amounts due. Setting payment terms at large amounts when an individual is a low wage earner, is receiving Social Security benefits, or is on some other fixed income such as public assistance, inevitably results in default in payment terms, requiring follow-up, and increased costs that can be avoided by setting payment terms that are more commensurate with the debtor's financial circumstances. Refresher training is provided in the instances where a payment amount is set too high or too low. If the individual meets "hardship" guidelines, lower payment amounts may be set and in some cases, based upon "ability to pay."

Recommendation 10. DRR should consistently follow their established guidelines for payment plans.

Department of Revenue Recovery Response

This recommendation has been implemented. DRR has consistently followed established guidelines for payment plans as described in the response to Finding 10 in this report. Refresher training is provided in the instances where a payment amount is set too high or too low.

Finding 11. DRR does not review debtor account activity to assess collectability or regularly use the FTB Tax Offset Program to successfully improve revenue recovery.

Department of Revenue Recovery Response

DRR disagrees with this finding. Prior to the Grand Jury Report, DRR has regularly used numerous reports (described in Finding 2) to review debtor account activity and assess collectability. On an annual basis, with monthly updates, DRR submits all eligible debt to the

FTB tax offset program. Almost \$400 million in eligible debt was submitted to FTB in FY 2015-16.

Recommendation 11. DRR should review debtor account activity to determine collectability and use the FTB Tax Offset Program regularly to effectively improve revenue collections.

Department of Revenue Recovery Response

The recommendation has been implemented. As described in response to Finding 11 in this report, DRR regularly reviews debtor account activity to determine collectability and annually submits, with monthly updates, all eligible debt to the FTB Tax Offset Program. The FTB Tax Offset Program is just one of many tools DRR uses to pursue collections. An individual with income has to have a tax refund before it can be intercepted. An account may still be collectable if the FTB Tax Offset Program is unsuccessful.

Finding 12. Revenue collected by DRR with incomplete debtor account information is not being posted to debtor accounts in the DMACS when received.

Department of Revenue Recovery Response

DRR disagrees partially with this finding. DRR posts payments with incomplete debtor information to DMACS in a debtor account labeled for tracking of such payments or in a debtor account established in the name of the maker of the payment. The payments are researched every day and either applied to the appropriate debtor's account, and then the funds are disbursed to the customer agency at the end of the month, or the payment remains in the Refund Trust account and the *Refund Review Band*, which is worked on a daily basis.

Recommendation 12. A debtor account should be identified and matched in the DMACS before payments can be posted in an established time frame.

Department of Revenue Recovery Response

The recommendation is partially implemented. DRR's internal controls require all payments received to be posted to DMACS the same day to account for and reconcile all daily cash receipts. The few payments where an existing debtor account cannot be located after initial same day research are posted to a DMACS debtor account established in the name of the maker of the payment. DRR procedures then require additional research to be completed within 3 business days. Then the payment is applied to the appropriate debtor's account and the funds are disbursed to the customer agency at the end of the month, or the payment remains in the Refund Trust account and the *Refund Review Band* for processing. The *Refund Review Band* is worked on a daily basis.

Finding 13. DRR does not have the tools or reports to verify daily payment transactions and/or identify payments received with inadequate debtor account information.

Department of Revenue Recovery Response

DRR disagrees with this finding. DRR has the Daily Transaction report, which is generated by DMACS, itemizes all of the transactions that were posted that day and is used to reconcile cash received to payments that have been posted. DMACS also produces a daily report of electronic payments where DMACS was unable to locate an existing account and posted the payment to a debtor account established using the information available with the payment. Other DMACS generated tools and reports include the Unallocated Report, which lists all debtor accounts with a credit balance, and the Refund Review work queue, where a debtor account with credit balances is held and is worked daily. Payments posted to debtor accounts in DMACS established to hold payments with inadequate debtor information are included in both the Unallocated Report and the Refund Review work queue.

Recommendation 13. DRR should develop and implement a daily transaction/exception report that will list daily collections, the accounts where payments were applied, and identify the payments with inadequate debtor account information that were deposited in the Unallocated Trust Account.

Department of Revenue Recovery Response

The recommendation has been implemented. As described in the response to Finding 13 in this report, DMACS generates daily reports that list daily collections and debtor accounts where payments were applied, including payments with inadequate debtor information. DRR does not have an “Unallocated Trust Account;” however, DRR does have an Unallocated Account in the DMACS system which tracks debits and credits associated with credit balances.

Finding 14. DRR rarely distributes funds held in the Unallocated Trust Account to its agency clients.

Department of Revenue Recovery Response

DRR disagrees partially with this finding. DRR’s DMACS Unallocated Account tracks credit balance transactions. Specifically, when a credit balance is created or resolved. The debit and credit transactions are tracked in the Unallocated Account. Funds associated with these transactions are held in the Refund Trust and the *Refund Review Band*, which is worked on a daily basis. Refunds are issued out of the Refund Trust almost daily. Credit balances applied to unpaid charges are included in the revenue disbursements to client agencies out of the Receipts Trust on a monthly basis.

Recommendation 14. DRR should distribute the funds held in the Unallocated Account to its agency clients.

Department of Revenue Recovery Response

The recommendation is partially implemented. The Unallocated Account in the DMACS General Ledger holds transactions associated with credit balances; however, the funds are held in the Refund Trust and not all funds are eligible for distribution to agency clients. If no unpaid amounts exist on the debtor's account, the credit balance is refunded to the debtor out of the Refund Trust, which is researched daily. Funds applied to unpaid amounts are distributed from the Receipts Trust, and are included in the revenue distribution to client agencies at the end of the month. The backlog of credit balances will be researched and processed as appropriate within six months.

Finding 15. DRR does not reconcile the issues associated with the over 53,000 transactions in the Unallocated Trust Account.

Department of Revenue Recovery Response

DRR disagrees partially with this finding. While credit balance transactions that occurred prior to conversion to DMACS in 2009 are partially reconciled and will be completed within six months, the credit balance transactions after conversion have been reconciled through July 2016. The Unallocated Account is reconciled on a monthly basis. The account holds all debit and offsetting credit transactions in DMACS. The transaction count accumulates because the transactions serve as DRR's permanent record of these transactions, and are never deleted from the system.

Recommendation 15. DRR should reconcile the over 53,000 transactions in the Unallocated Trust Account by January 31, 2017.

Department of Revenue Recovery Response

The recommendation will be implemented. DRR has reconciled all transactions in the DMACS Unallocated Account on a monthly basis since converting to the DMACS system in 2009. However, reconciliation of the transactions that occurred prior to the DMACS conversion are ongoing and will be completed within six months.

Finding 16. DRR does not have a policy or procedure for processing payments that are missing debtor account information.

Department of Revenue Recovery Response

DRR disagrees with this finding. DRR has procedures for processing payments that are missing debtor account information. Electronic payments are posted to a debtor account in DMACS established in the name of the payment maker and DMACS produces a daily report for same day research. If initial same day research by a cashier cannot locate an account number for payments posted manually, the payment is posted to a DMACS debtor account for tracking and daily cash

reconciliation purposes. In both cases, additional research is done within 3 business days and if an account cannot be located, the payment remains in the debtor account established in the name of the maker of the payment and remains in the automated *Refund Review Band* for processing.

Recommendation 16. DRR should implement a policy or procedure for processing payments that are missing debtor account information.

Department of Revenue Recovery Response

This recommendation has been implemented. Prior to the issuance of the Grand Jury's Report, DRR has had long standing procedures for processing payments that are missing debtor account information. Payments missing debtor account information are researched daily and posted to the appropriate debtor account and then the payments are disbursed to customer agencies at the end of the month. When a debtor account cannot be located, the payment remains in the Refund Trust account and *Refund Review Band*, which is researched almost daily. Also, refunds are issued almost daily.

Finding 17. DRR has no plan to reconcile and close the Unallocated Trust Account.

Department of Revenue Recovery Response

DRR disagrees partially with this finding. DRR has reconciled all transactions in the DMACS Unallocated Account on a monthly basis since converting to the DMACS system in 2009. However, reconciliation of the transactions that occurred prior to the DMACS conversion are ongoing, and will be completed within six months. The Unallocated Account is necessary to DRR's operations as stated above, therefore it will never be closed.

Recommendation 17. DRR should implement a plan to close the Unallocated Trust Account.

Department of Revenue Recovery Response

This recommendation will not be implemented since the Unallocated Account is necessary to DRR's operations.

Finding 18. The DMACS creates duplicate accounts and/or charges which DRR staff is unable to explain or resolve.

Department of Revenue Recovery Response

DRR disagrees partially with this finding. DRR is able to explain and resolve duplicate charges/accounts. Refresher training was provided to staff, so duplicates they cannot explain or resolve are brought to a manager's attention for resolution. DMACS uses matching criteria to determine if a new charge referred to DRR has been previously added to an account and a duplicate charge is added if the data isn't an exact match. However, instead of adding an incorrect charge to a person's account, DRR does create another account when charges with insufficient debtor information are received. This account creation is necessary because

DMACS' matching rules require at least one identifier, such as a birth date or social security number, since relatives with the same name (Joe Sr. and Jr.) or similar names (Joe A. and Joe B.) may reside at the same address.

Recommendation 18. DRR should correct the reason(s) the DMACS is duplicating debtor accounts and/or charges.

Department of Revenue Recovery Response

The recommendation will be partially implemented. When charges are received without sufficient debtor identification to match to an existing account, DRR will continue to create another account to prevent a charge being added to the incorrect person's account. In some cases, data entry errors made by DRR customer agencies in their systems may result in duplicate charges in DMACS. However, DRR is modifying the DMACS matching criteria and these system enhancements will reduce duplication of charges.

Finding 19. Resolution of duplicate debtor accounts and/or charges does not appear to be a DRR priority.

Department of Revenue Recovery Response

DRR agrees with this finding. While DRR researches duplicate debtor accounts and/or charges on almost a daily basis, staff were not able to easily locate potential duplicates on a proactive basis.

Recommendation 19. DRR should prioritize the resolution of the duplicate debtor accounts and/or charges.

Department of Revenue Recovery Response

The recommendation will be implemented. When DRR receives charges with insufficient debtor identification, DRR will continue to create multiple accounts instead of adding new charges to the incorrect individual's account. When the account is researched by staff, or brought to DRR's attention, and the debtor's identity can be verified, DRR will promptly consolidate the charges into one account. DRR has implemented a number of steps to prevent and promptly resolve duplicate charges, such as allocating more staff time to the task, providing additional staff with the Daily Transaction report, which is reviewed daily to research and resolve potential duplicate charges, and will implement system enhancements within six months to minimize the creation of duplicate charges.

Finding 20. There is evidence of debtors' payments to DRR on duplicate accounts.

Department of Revenue Recovery Response

DRR agrees with this finding. Debtors with multiple accounts generally contain different charges, and payments applied to those charges are properly credited. In some instances,

payment may be applied to a duplicate charge. In those circumstances, the payment is transferred to other unpaid charges on the debtor's account or a refund is issued.

Recommendation 20. DRR should refund all monies owed to debtors that have made payments on duplicate accounts.

Department of Revenue Recovery Response

The recommendation is implemented. In the vast majority of instances, payments on multiple accounts for a debtor are properly credited to different charges. However, DRR implemented a daily review of the Daily Transaction report to immediately identify potential duplicate charges and has implemented a monthly review of charges added against those in the system as a second level review to identify potential duplicate charges. Overpayments made in cases of charge duplication are refunded if no other unpaid charges exist.

Finding 21. Approximately 30,000 debtor accounts are due refunds in excess of \$1.4 million.

Director of Revenue Recovery Response

DRR agrees with this finding. However, refunds are not due on all 30,000 debtor accounts. DRR accounts are reviewed daily using the *Refund Review Band* in DMACS, and overpayments are refunded if no other unpaid charges exist. To prevent a cash loss due to a dishonored check or other payment, refunds are issued after 45 days of payment, unless otherwise mandated. In addition, if the debtor cannot be located after thorough staff research, the overpayment will remain in the Refund Trust and the Refund Review Band. The DMACS system searches for a new address every six months and brings back to staff attention in the *Refund Review Band* when a new address is located. DRR processes large refunds before smaller refunds, which has resulted in the accumulation of over 10,000 credit balances in the amount of \$1.50 or less.

Recommendation 21. DRR should use the Refund Review Band effectively and issue refunds for all overpayment monies in an established time frame.

Department of Revenue Recovery Response

The recommendation is partially implemented. DRR already uses the *Refund Review Band* effectively; however, overpayments cannot be refunded if unpaid charges exist or if the debtor cannot be located. DRR has added more staff time to the daily researching of overpayments to clear the accumulation of credit balances and to process refunds within 90 days of payment unless the debtor cannot be located. When debtors cannot be located, the DMACS system searches for a new address every 6 months and then brings the account to staff attention in the Refund Review Band. DRR management implemented a monthly review of credit balances to ensure timely processing. In addition, DRR will regularly publish overpayments on the County's open data website to make public the names and credit balance amounts for payments without an account number or a refund that cannot be issued because a current address cannot be located.

Findings 22. DRR does not consider processing refunds due on accounts established before July 2015 as a department priority.

Department of Revenue Recovery Response

DRR disagrees with this finding. Processing refunds on all accounts has always been a priority for DRR, and recently more resources were dedicated to that effort. Consistent with this approach, refunds on credit balances established before July 2015 are not processed differently than refunds established on accounts after July 2015. The *Refund Review Band* is researched almost daily and overpayments are applied to other unpaid charges on the debtors account or are refunded if no other charges exist.

Recommendation 22. DRR should elevate the department's priority for the refund of all overpayments.

Department of Revenue Recovery Response

This recommendation is implemented. DRR has elevated the priority for the daily researching of credit balances in the *Refund Review Band* by adding more staff time to the daily researching of overpayments to process refunds within 90 days of payment, unless the debtor cannot be located. When debtors cannot be located, the DMACS system searches for a new address every six months and then brings the account to staff attention in the *Refund Review Band*.

Finding 23. Significant issues were identified during the DOF auditors' initial system review, preliminary findings were discussed with DRR management but a final report was never submitted to the Board for approval.

Department of Finance Response

Department of Finance (DOF) agrees with the finding.

Department of Revenue Recovery

DRR agrees with the DOF. Of the concerns reviewed, the major concern expressed is that the DMACS does not require a second individual to record approval of financial transactions posted to DMACS, which is required in the County's COMPASS financial system. To address DOF concerns, DRR reviewed the internal controls in place, and revised procedures to ensure only authorized staff post appropriate transactions to the DMACS system.

Recommendation 23. DOF should submit the initial DRR system review report to the Board for its review and approval.

Department of Finance Response

The recommendation will not be implemented. The DOF report that the Grand Jury received was a draft report being written by the assigned auditor in charge. That auditor started to draft

the report, but the report was not completed nor reviewed by management. The system review will be completed and one report written on the results of that review.

Department of Revenue Recovery

The Department of Revenue Recovery agrees with DOF.

Finding 24. Issues regarding potential fraud and other irregularities were identified during the DOF auditors' subsequent system review. DRR obstructed the release of any subsequent findings and/or a subsequent final report, which should have been submitted to the Board for approval.

Department of Finance Response

DOF partially disagrees with the finding. DOF did not detect fraud and DRR did not obstruct the release of any subsequent findings and/or a subsequent final report. Due to staffing changes in both DRR and DOF, limited resources, priorities guided by statutes, and the DRR annual budgeted audit hours, the system review was not completed thus no report was issued.

Department of Revenue Recovery Response

DRR agrees with DOF. DRR did not receive a report from DOF auditors regarding the system review and did not obstruct the release of any subsequent findings and/or subsequent final report. In addition, the concern regarding potential fraud pertained to DMACS not designed to require a second individual to record approval of transactions posted to DMACS as is required in the County's COMPASS financial system, and no actual fraud was detected. DRR reviewed and discussed with DOF management the internal controls in place to ensure only authorized staff post appropriate transactions to the DMACS system.

Recommendation 24. DOF auditors should prepare a report for the subsequent DRR system review and present it to DRR and the Board for review and approval.

Department of Finance Response

The recommendation has not been implemented but will be implemented in the future. As noted above, there was only one review and that review is currently being completed. It is anticipated the report will be presented to the Board within six months.

Department of Revenue Recovery

The Department of Revenue Recovery agrees with DOF.

Finding 25. DRR terminated any further action by the DOF auditors during both system reviews.

Department of Finance Response

DOF disagrees with this finding. DRR did not terminate further action by the DOF auditors. The review was not completed due to staffing changes in both DRR and DOF limited resources, priorities guided by statutes, and budgeted audit hours.

Department of Revenue Recovery Response

The Department of Revenue Recovery agrees with DOF.

Recommendation 25. DOF should follow all County audit reporting standards when conducting a department review.

Department of Finance Response

The recommendation is implemented. Depending upon the type of engagement, DOF follows either Government Auditing Standards or the American Institute of Certified Public Accountant standards when completing reviews.

Department of Revenue Recovery Response

The Department of Revenue Recovery agrees with DOF

Findings 26. There is inadequate monitoring of unlimited user access rights to the DMACS debtor account and collection data.

Department of Revenue Recovery Response

DRR disagrees partially with this finding. DRR monitors user access by reviewing the Daily Transaction report to ensure all staff, including staff with unlimited user access, has appropriate transaction authority. Furthermore, DTech manages the technical staff that has access to DMACS. The DMACS system includes auditing tables to track changes to records. When modifications are made to a record, the record is date and time stamped with the credentials of the user making the change. The system includes a User Activity Report.

Recommendation 26. DRR should monitor and control all user access to the DMACS debtor accounts and collection data with written authorization that includes time limits and revocation of the user access rights upon completion of tasks to be performed.

Department of Revenue Recovery Response

The recommendation has been implemented. Procedures were revised to strengthen oversight of all user access rights and now include quarterly verification of user access rights and random

physical verification of user access rights by supervisors.

Finding 27. There is no oversight of the individuals with unlimited user access rights to the DMACS.

Department of Revenue Recovery Response

DRR disagrees with this finding. DTech is responsible for maintaining and supporting the DMACS system and contractually responsible for managing the County IT and contract IT DMACS staff. Therefore, the DTech DMACS team lead provides oversight of four IT staff with unlimited user access rights to DMACS. The Daily Activity and Daily Transaction reports record all updates to DMACS data, both financial and non-financial data, which DRR management reviews daily to insure transactions are processed by only authorized staff.

Department of Technology Response

The IT team supporting DMACS consists of two County employees and three contract developers. The senior County staff (team lead) and the three contractors have full access to the production, test and development environments. The junior County staff has access to the test and development environments only. These are the only IT staff with access to DMACS. They need full system access in order to support, maintain and troubleshoot the system as needed. While it is rarely done, if they modify records or make transactions in the production system while supporting the system, the records are date and time stamped and included in the audit log. Additional IT staff has access to the servers that host DMACS; however, this is for the purpose of system management such as backups, restores, patching and performance tuning. These IT operations staff do not have access to the application or the ability to view or modify data.

Recommendation 27. DRR should provide oversight for the County IT and the contract developer's unlimited user access rights.

Department of Revenue Recovery Response

The recommendation is implemented. Procedures have been revised to strengthen oversight of all user access rights and now include quarterly verification of user access rights and random physical verification of user access rights by supervisors.

COUNTY OF SACRAMENTO
CALIFORNIA

SEP 13 2016

By *Fluence Evans*
Clerk of the Board

For the Agenda of:
September 13, 2016
Timed: 3:00 p.m.

To: Board of Supervisors
From: County Executive
Subject: Response To The 2015-16 Grand Jury Final Report

Supervisory
District(s): All

Contact: Justin Honea, CEO Management Analyst, 874-5579
Joe Barba, Principal Administrative Analyst 874-7094

Overview

This is the response to the investigation findings and recommendations contained in the 2015-16 Grand Jury Final Report issued June 20, 2016. County responses were requested from three investigative reports.

The first report titled, *\$658 Million in Uncollected Debt and Rising*, required county responses from the Director of the Revenue Recovery (DRR), the Department of Finance (DOF), the County Executive Office (CEO), and the Board of Supervisors (BOS). Staff from the DRR, DOF, the Department of Technology, the Department of General Services, County Counsel and the CEO contributed to the report (Attachment 1).

The second report titled *Domestic Violence: An Inconsistent Priority for Law Enforcement* required a response from the District Attorney and the Sheriff. The third report titled the *Release of Mentally Ill Inmates From the Main Jail* required a response from the Sheriff. Elected official's responses are due within 60 days, rather than 90 days of the Grand Jury submitting its final report to the presiding judge, and have therefore already been submitted. For your information, a copy of the responses from the District Attorney (Attachment 2) and the Sheriff (Attachment 3) are attached.

Recommendations

1. Adopt this report as Sacramento County's response (Attachment 1) to the findings and recommendations contained in the 2015-16 Grand Jury Final Report.
2. Agree to each Department's response to the Grand Jury's findings and recommendations in the Sacramento County's response (Attachment 1) to the 2015-16 Grand Jury Final Report.
3. Direct the Clerk of the Board to forward a copy of the report (Attachment 1) and the Board Letter to the Presiding Judge of the Superior Court no later than September 29, 2016.

Measures/Evaluation

Not applicable.

Fiscal Impact

Departments contributing to this report absorbed incurred costs within their respective budgets.

BACKGROUND

Each year the Sacramento County Grand Jury concludes its work and releases its Final Report, typically the last week in June. The report, which can address a variety of activities, functions, and responsibilities of government, typically contains findings and recommendations with a response specifically directed to the Presiding Judge of the Superior Court.

The form of the County's responses as required by Penal Code section 933.05 is as follows:

As to each Grand Jury finding, the responding person or entity shall indicate one of the following:

1. *The respondent agrees with the finding.*
2. *The respondent disagrees wholly or partially with the finding in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons.*

As to each Grand Jury recommendation, the responding person or entity shall report one of the following actions:

1. *The recommendation has been implemented, with a summary regarding the implemented action.*
2. *The recommendation has not yet been implemented, but will be implemented in the future, with a timeframe for implementation.*
3. *The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a timeframe for the matter to be prepared for discussion by the officer or head of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This timeframe shall not exceed six months from the date of the publication of the Grand Jury report.*
4. *The recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation.*

If a finding or recommendation of the grand jury addresses budgetary or personnel matters of a county agency or department headed by an elected officer, both the agency or department head and the board of supervisors shall respond if requested by the grand jury, but the response of the board of supervisors shall address only those budgetary or personnel matters over which it has some decision making authority. The response of the elected agency or department head shall address all aspects of the findings or recommendations affecting his or her agency or department.

DISCUSSION

The 2015-16 Grand Jury Final Report contained three reports on issues pertaining directly to the County. The first report, *\$658 Million in Uncollected Debt and Rising* (Attachment 1), required county responses from the Director of the Revenue Recovery, the Department of Finance, the County Executive Office, and the Board of Supervisors. The County has 90 days to respond to the findings and recommendations to the presiding judge.

The second and third report titled, *Domestic Violence: An Inconsistent Priority for Law Enforcement* requires a response from the District Attorney and the Sheriff, and the *Release of Mentally Ill Inmates from the Main Jail* requires a response from the Sheriff. Elected official's responses are due within 60 days, rather than 90 days of the Grand Jury submitting its final report to the presiding judge, and have therefore already been submitted. The District Attorney (Attachment 2) and the Sheriff (Attachment 3) responses are included as attachments in this letter.

FINANCIAL ANALYSIS

Staff from the DRR, DOF, the Department of Technology, the Department of General Services, County Counsel and the CEO contributed to this report. Departments contributing to this report absorbed incurred costs within their respective budgets.

Respectfully submitted,

NAVDEEP S. GILL
County Executive

Attachments:

- Attachment 1 – Sacramento County Response
- Attachment 2 – District Attorney's Response
- Attachment 3 – Sheriff Department's Response