



*Final
Report*

County of San Diego, California

Auditor and Controller

**Probation Department
Follow-Up Audit**

Office of **A**udits & **A**dvisory **S**ervices

July 2009
Report No. A09-035



COUNTY OF SAN DIEGO

INTER-DEPARTMENTAL CORRESPONDENCE

July 13, 2009

TO: Mack Jenkins, Chief Probation Officer
Probation Department

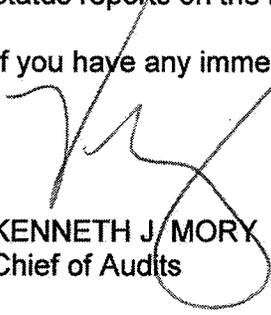
FROM: Kenneth J. Mory
Chief of Audits

FINAL REPORT: PROBATION DEPARTMENT FOLLOW-UP AUDIT

Enclosed is our report on the Probation Department Follow-Up Audit. The report includes various audit findings and recommendations.

We have reviewed your responses and have attached them to the audit report. The actions taken and planned, in general, are responsive to the findings and recommendations in the report. As required under Board Policy B-44, we respectfully request that you provide quarterly status reports on the implementation progress of the recommendations.

If you have any immediate concerns about the report, please contact me at (858) 495-5662.


KENNETH J. MORY
Chief of Audits

AUD:YM:aps

Enclosure

c: Raymond A. Fernandez, Deputy Chief Administrative Officer, Public Safety Group
Donald F. Steuer, Chief Financial Officer
Tracy M. Sandoval, Assistant Chief Financial Officer/Auditor and Controller
Dorothy Y. Thrush, Group Finance Director, Public Safety Group

PROBATION DEPARTMENT FOLLOW-UP AUDIT

The Office of Audits & Advisory Services (OAAS) completed an audit of the Probation Department (Department) to follow up on the recommendations provided in the following two prior audits:

- Correctional Alternatives Inc. (CAI) Contract Compliance Audit (report issued in May 2006); and
- Probation Department Officers' Transition Audit (Iaria to Cranford) (report issued in May 2008)

The objective of this follow-up audit was to determine whether the Department implemented the recommendations or alternative solutions to address the findings included in the original audit reports.

BACKGROUND

OAAS performed the CAI Contract Compliance Audit in FY 2005-06. The objective of the audit was to evaluate CAI's compliance with the "Agreement for Provision of Work Furlough Services and Facilities Lease between the County of San Diego and Correctional Alternatives, Inc." for FY 2004-05.¹ As part of the contract, a County-owned facility has been leased to CAI for one dollar for the contract term to house inmates in the Work Furlough Program. Work Furlough is a sentencing alternative for judges that allow inmates to maintain employment while serving jail commitments when their work day is complete. Each inmate pays the contractor a per diem fee to support program operation costs. In FY 2004-05, with a daily average of 147 program participants, the estimated inmate fee amounted to approximately \$2 million. In addition to the County inmates, CAI also houses federal and state inmates in the County facility. Pursuant to the contract, CAI pays the County 10% of the gross revenue generated from housing non-County inmates, which amounted to approximately \$191,000 in FY 2004-05.

Some areas of non-compliance were noted in the original audit, and the resulting audit recommendations addressed the need for the Department to strengthen oversight of CAI's operation to ensure that all contractual requirements are met.

OAAS also performed an Officers' Transition Audit (Iaria to Cranford) in FY 2007-08. The objective of the audit was to determine whether the outgoing and incoming Chief Probation Officers took appropriate actions and filed complete and reasonably accurate reports as County officers in compliance with California Codes and the County's regulatory requirements. The resulting audit recommendations addressed the need for the Department to strengthen internal controls over fixed assets, minor equipment, and weapons inventory.

¹ The current contract was executed in 2000 for a term of 20 years, with two optional five-year extensions. The fourth amendment of this contract was executed on March 3, 2009.

AUDIT SCOPE AND LIMITATIONS

The objective of this follow-up audit was to determine whether the Department implemented the recommendations or alternative solutions to address the findings included in the original audit reports. Those recommendations focused on the following areas:

A. CAI Contract Compliance Audit

- Internal Control over Inmate Welfare Fund
- Annual Financial Audit Requirement
- Staff Training Requirement
- Reporting Requirement
- Inmate Exit Interview Requirement

B. Officers' Transition Audit

- Internal Control over Fixed Assets
- Internal Control over Minor Equipment
- Internal Control over Weapons Inventory

This audit was conducted in accordance with auditing standards prescribed by the Institute of Internal Auditors, Inc., as required by California Government Code, Section 1236.

METHODOLOGY

OAAS performed testing to evaluate the adequacy and sufficiency of the implementation. The following bullets briefly highlight the methods used:

- Reviewed the Department's response to the audit findings and any subsequent status updates provided by the Department;
- Conducted interviews with the Department's Accounting staff, the Work Furlough Oversight Unit Supervisor, and the Rangemaster;
- Reviewed various reports and supporting documentation which included policies and procedures, contracts, internal/external correspondences (emails and letters), etc.; and
- Observed the Rangemaster's entry through the armory gate security system.

FINDINGS AND OBSERVATIONS

Overall, it was found that the Department implemented the majority of recommendations in the original audit reports. However, OAAS found three areas where the implementation is still in progress. Each finding and its corresponding recommendation from the original audit is listed below followed by the follow-up audit results along with the recommendation.

The remaining areas, where audit recommendations were fully implemented and/or addressed, are listed in the Appendix.

A. CAI Contract Compliance Audit

Finding: No Fiscal Report Provided by the Contractor

Annual Financial Audit Requirement

Original Finding	Original Recommendation
CAI has never met the Contract Article 9.3 requirement to submit to the County an annual audit or fiscal reconciliation of the financial records performed by an outside accounting firm at the contractor's expense	Require CAI to submit the financial audit for 2005, send a formal contract violation notice to CAI in accordance with Contract Article 5.2, and consider amending the contract to include a financial penalty for non-compliance or to include an option for the County to order such an audit at CAI's expense. The Department of Purchasing and Contracting and/or the County Counsel should be consulted.

The Department implemented an alternative solution to this finding. OAAS verified that the administrative adjustments were made to remove Article 9.3 and to modify Article 9.2 to include "CONTRACTOR shall provide to County at Contractor's expense, monthly and/or quarterly fiscal and program reports..." However, OAAS found that the only fiscal report provided by CAI is the monthly cost report related to the Inmate Welfare Fund.² Therefore, the Department has never been able to assess CAI's fiscal condition to monitor its financial solvency, which would have potential impact on the facility's operations, legal/regulatory compliance, and the County's reputation.

Recommendation: Formally request the contractor to provide the department with periodic fiscal reports pertaining to the contractor's financial solvency. Review the reports to ensure that the contractor remains fiscally sound and is able to continue providing agreed upon services.

B. Officers' Transition Audit

Finding I: Discrepancies Exist between Fixed Asset Inventory and Oracle

Inventory Control Over Fixed Assets

Original Finding	Original Recommendation
OAAS found fixed assets that did not have a County property tag and assets located at a different facility than the one listed on the Oracle Fixed Asset Register Report.	Ensure that the County property tags are properly attached to fixed assets when taking inventory. File Form 253 each time a fixed asset is transferred to another building. For equipment that is portable by nature (e.g., projector), establish a sign-out system to properly track the equipment.

Based on OAAS testing, the Department took appropriate actions to address the discrepancies identified in the auditor's sample taken during the FY 2007-08 audit.

² The Inmate Welfare Fund is established and used for the benefit of the inmates pursuant to Penal Code 4025. The Contract Article 2.2.13 requires the contractor to "establish an inmate welfare fund wherein the proceeds from the use of telephones, vending machines, and any other County Inmate revenue activity will be deposited and used to promote the interests of the County Inmates."

However, the Department subsequently performed a physical inventory on 9/15/08, and identified a number of additional discrepancies between its inventory and the Oracle Fixed Asset Register. The discrepancies include unsighted items, items sighted but not recorded, items with no or different asset tags, and items with different location codes. The department is still in the process of addressing these discrepancies to comply with County policy regarding the control of capital assets.³ The target implementation date is September 2009, before the next physical inventory is performed.

Recommendation: Take appropriate actions to address the discrepancies between the Oracle Fixed Asset Register and the physical inventory result.

Finding II: Internal Control over Weapons Inventory should be Strengthened

COMMENDATION

The Office of Audits & Advisory Services commends and sincerely appreciates the courteousness and cooperation extended by the Probation Department officers and staff throughout this audit.

AUDIT TEAM

Yuki Matsuura, Senior Auditor

Appendix

IMPLEMENTED RECOMMENDATIONS

A. CAI Contract Compliance Audit

Internal Control over Inmate Welfare Fund

Original Finding	Original Recommendation	Follow Up Audit Result
Relevant revenues and expenses related to the inmates housed at the Pacific Furlough Facility (PFF) ⁵ were not accounted for in the Inmate Welfare Fund.	Review and monitor the fund quarterly to prevent misuse of the IWF.	The Department reviews the IWF cost report and the backup documents provided by CAI monthly to prevent misuse of the fund.
An expense of \$840 related to certain federal inmates was mistakenly charged to the County's IWF.	Follow up on the \$840 error to ensure it has been corrected.	The Department confirmed that the error was corrected by obtaining and reviewing the supporting documentation.
CAI allocated \$3,300 of maintenance and administration expenses to the IWF every quarter regardless of actual time spent on the tasks.	Follow up with CAI on the quarterly allocation of maintenance and administration expenses to validate the basis for calculation and negotiate a more appropriate allocation formula based on cost causation.	CAI no longer charges the monthly maintenance and administration fees. According to CAI, the administration costs were absorbed into their budget, but the new policy is subject to review in December '09. The maintenance fees used to include the cost of collecting coins from the washers and dryers, but this function was handed over to the vendor and is no longer applicable. Any maintenance fees will be charged based on a per project basis.
Only one employee performed the cash collection from the washers and dryers, allowing for potential theft owing to the lack of segregation of duties.	Follow-up with CAI to strengthen the internal control related to the on-site washer and dryer cash collection procedure. More than one employee should be involved in the process.	A vendor collects cash from the washers and dryers and pays the CAI monthly commission based on the gross sales. CAI employees are no longer involved in the cash collection process.

Staff Training Requirement

Original Finding	Original Recommendation	Follow Up Audit Result
CAI did not meet the Contract Article 2.2.3 training requirement at both the CAI and the PFF facilities. The monitoring staff is required to finish	Consider amending the contract to establish a financial penalty for violation of the Title 15 training requirement. The Department of Purchasing	The Department implemented an alternative solution to this finding. The Department established and implemented new procedures effective February 2009 to require CAI to report training hours of each CAI staff

⁵ The female population was temporarily housed at PFF from March 2004 to March 2006. All County inmates are now housed in the County facility.

certain basic core training within the first year of employment.	and Contracting and/or the County Counsel should be consulted.	monthly. The Department reviews the reported hours and the backup documents to monitor the progress to ensure that the training requirement is met by the fiscal year end.
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Reporting Requirement

Original Finding	Original Recommendation	Follow Up Audit Result
CAI did not meet the Contract Article 2.2.5 requirement to provide job descriptions including salary information to the County.	Send a formal contract violation notice to CAI in accordance with Contract Article 5.2, and require CAI to provide complete job descriptions with salary ranges for all positions and to submit any future updates in a timely manner.	The Department implemented an alternative solution to this finding. CAI provided job descriptions and salary information ⁶ for 13 positions which they determined to be applicable under the Article 2.2.5. The Department's Work Furlough Oversight (WFO) unit also included a new line item in their monthly report effective March 2009 to indicate if there have been any changes in the job descriptions or salary ranges. This new line item will ensure that the WFO staff will inquire CAI of any updates every month.

Inmate Exit Interview Requirement

Original Finding	Original Recommendation	Follow Up Audit Result
There was insufficient evidence that CAI met the Contract Article 2.2.10h requirement to hold an in-person exit interview before each inmate is released from the program. Some of the exit interview forms reviewed did not have the inmate's signature.	Require the inmate's signature on the exit interview form and require CAI to document the exit interview policy in the inmate handbook.	<p>The Department revised the exit interview form to include an inmate signature line and instruction to write "refused to sign" on the signature line if the inmate refuses to sign. The inmate handbook was also revised to include the exit interview policy. The WFO unit periodically reviews the resident files on a sample basis to ensure that the exit interview has been conducted for a released inmate.</p> <p>In addition, the WFO unit has just established a new department policy which requires the CAI Director to review all exit interview forms that have problems, suggestions, or concerns listed for proper follow-up. Any significant issues will be evaluated and addressed by the CAI Director and will be forwarded to the WFO Supervisor. The exit interview form was further revised to reflect the new policy and will be used starting in April 2009.</p>

⁶ The salary information for three of the 13 positions (Director, Captain, and Food Service Manager) was "commensurate with experience", instead of a specific salary range.

B. Officers' Transition Audit

Internal Control over Fixed Assets

Original Finding	Original Recommendation	Follow Up Audit Result
OAAS found fixed assets that had been reported missing since 2000. The department did not file required supplemental statements describing the attempts made to locate the missing assets	For each missing asset, prepare and file a statement describing the attempts made to locate the missing assets.	All fixed assets that had been reported missing since 2000 have been removed from the Oracle Fixed Asset Register.

Internal Control over Minor Equipment

Original Finding	Original Recommendation	Follow Up Audit Result
OAAS was unable to validate the accuracy of the amounts and description of the items recorded on the inventory listing due to insufficient supporting documentation.	Maintain appropriate acquisition and disposition documentation to support the Minor Equipment and Books amounts.	The Department implemented new procedures to maintain acquisition and disposition documents centrally at Probation Accounting. OAAS verified that the acquisition documents for items purchased in FY 2006-07 or later and the disposition documents for items disposed in FY 2007-08 or later have been properly filed.
The review of the inventory listing revealed that the total amount was understated by \$486,625 due to a calculation error.	Make the necessary adjustment to correct the understatement of the inventory listing by \$486,625. Perform adequate review and reconciliation of the minor equipment listings submitted by field offices and facilities to ensure that the total amount reported is accurate and complete.	OAAS verified that the necessary adjustment was made. Based on the testing, the Department implemented new procedures to maintain minor equipment listing centrally at Probation Accounting. Based on the inquiry, the summary worksheet that combines the listings by location is reviewed monthly by the supervisor.
The Department does not maintain an ongoing listing of minor equipment items.	Update the minor equipment listing periodically by requiring each field office or facility to submit an updated inventory listing along with appropriate acquisition and/or disposition documentation to support any additions or deletions. Perform adequate review and reconciliation to ensure that the additions agree to purchases per Oracle and dispositions are properly authorized.	The Department implemented new procedures to update the minor equipment listing monthly with new purchases based on the receipts and back-up documents. This is done centrally at Probation Accounting and the total posting for the month is reconciled to the Oracle Expenditure Report to ensure accuracy. The minor equipment listing is also updated with the disposition documents as they are filed.

DEPARTMENT RESPONSE



County of San Diego

Mack Jenkins
CHIEF PROBATION OFFICER

DEPARTMENT OF PROBATION
POST OFFICE BOX 23597, SAN DIEGO, CALIFORNIA, 92193-3597

John E. Hensley
ASSISTANT CHIEF PROBATION OFFICER

July 6, 2009

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OFFICE OF AUDITS &
ADVISORY SERVICES

TO: Kenneth Mory
Chief of Audits

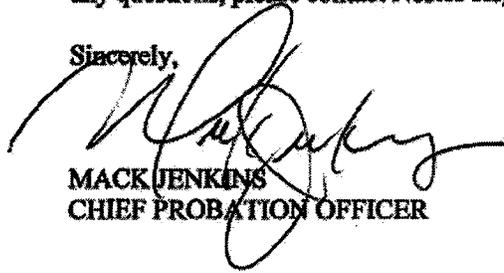
FROM: Mack Jenkins
Chief Probation Officer

RESPONSE TO FINAL DRAFT REPORT: Probation Department Follow-Up Audit

Attached to this letter, please find the Probation Department's response to the Final Draft Report for the Probation Department Follow-Up Audit.

Included in our response are both actions taken as well as actions planned. We estimate that the planned actions will be implemented by September 30, 2009. Should you have any questions, please contact Nestor Regalario at (858) 514-3226.

Sincerely,



MACK JENKINS
CHIEF PROBATION OFFICER

RESPONSES TO AUDIT RECOMMENDATIONS

A. CAI Contract Compliance Audit

RECOMMENDATION: *Formally request the contractor to provide the department with periodic fiscal reports pertaining to the contractor's financial solvency. Review the reports to ensure that the contractor remains fiscally sound and is able to continue providing agreed upon services.*

PROBATION DEPARTMENT RESPONSE: The Probation Department proposed language related to the financial audit requirement to CAI on June 9, 2009. CAI submitted a counter proposal on June 11, 2009, limiting the fiscal information available to Probation in reference to county inmates only. On June 15, 2009, a conference call was held with Probation, County Counsel, and Auditor and Controller. No determinations were made. Probation referred the counter proposal to Auditor and Controller, who then referred us to County Counsel. We are awaiting County Counsel response. Meanwhile, the fifth MOA amendment was processed without the fiscal language, and only addressing program changes. Negotiations with CAI for the fiscal language are pending County Counsel advice.

B. Officers' Transition Audit

RECOMMENDATION I: *Take appropriate action to address the discrepancies between the Oracle Fixed Asset Register and the physical inventory result.*

PROBATION DEPARTMENT RESPONSE: The Department conducted a fixed asset inventory and updated the Oracle Fixed Asset Register in September 2008, resulting in reconciled records. Form 253s were also prepared to reflect the correct locations of the assets in the Oracle Fixed Asset Register. The equipment was also tagged with County property asset numbers. The Department is working with Auditor and Controller Fixed Asset group on the final disposition of items that were reported as not sighted in the inventory report. When discussions are final with A&C, Probation will submit Form 253s for items that were not sighted. Probation will continue to monitor and update Oracle Financials Fixed Assets in accordance with County policies, procedures, and in line with the fiscal year end processes and guidelines.

