



March 9, 2010

Mr. James Applegate, Acting Facility Director  
Claremont Custody Center  
185 West Gale Avenue  
Coalinga, CA 93210

Dear Mr. Applegate:

**Final Audit Report—Claremont Custody Center Community Correctional Facility,  
Contract R89.1591.100**

The Department of Finance, Office of State Audits and Evaluations, has completed its fiscal compliance audit of the Claremont Custody Center Community Correctional Facility (Facility) for the period July 1, 2006 to March 31, 2009.

The enclosed report is for your information and use. The City's response to the report findings is incorporated into this final report. In the interest of brevity, attachments referenced in the City's response were omitted. The City agreed with our findings and we appreciate its willingness to implement corrective actions. The findings in our report are intended to assist management in improving the effectiveness and efficiency of its operations.

Please submit an updated corrective action plan to the California Department of Corrections and Rehabilitation, Community Correctional Facilities Administration, within 30 days of receipt of this report.

In accordance with Finance's policy of increased transparency, this report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, Corrections will post this report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov> within five working days of this transmittal.

We appreciate the assistance and cooperation of the Facility. If you have any questions regarding this report, please contact Cheryl Lyon, Manager, or Osman Sanneh, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA  
Chief, Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Mr. Bill Skinner, City Manager, City of Coalinga  
Mr. Robert Barron, Finance Director, City of Coalinga  
Ms. Maria Jimenez, Finance Supervisor, City of Coalinga  
Ms. Dalinda Harman, Chief (A), Community Correctional Facilities Administration,  
California Department of Corrections and Rehabilitation  
Mr. Terry Dickinson, Correctional Administrator, Community Correctional Facilities  
Administration, California Department of Corrections and Rehabilitation  
Mr. Robert Logan, Staff Services Manager I, Community Correctional Facilities  
Administration, California Department of Corrections and Rehabilitation  
Ms. Flordeliza Ligaya, Staff Services Manager I, Community Correctional Facilities  
Administration, California Department of Corrections and Rehabilitation  
Mr. Charles Davies, Program Analyst, Community Correctional Facilities Administration,  
California Department of Corrections and Rehabilitation

A FISCAL COMPLIANCE AUDIT

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Claremont Custody Center  
Community Correctional Facility  
Contract R89.1591.100

For the Period July 1, 2006  
through March 31, 2009

Prepared By:  
Office of State Audits and Evaluations  
Department of Finance

**MEMBERS OF THE TEAM**

Frances Parmelee, CPA  
Manager

M. Osman Sanneh, CPA  
Supervisor

Staff

Muang Saeteurn  
Jason Craft  
Weiping Kruschke

The final report will be available on our website at <http://www.dof.ca.gov>

You can contact our office at:

Department of Finance  
Office of State Audits and Evaluations  
300 Capitol Mall, Suite 801  
Sacramento, CA 95814  
(916) 322-2985

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# EXECUTIVE SUMMARY

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The California Department of Corrections and Rehabilitation (Corrections) contracted with the City of Coalinga (City) for operation of the Claremont Custody Center Community Correctional Facility (Facility). The City is responsible for providing inmate housing, sustenance, and coordinating inmate activities within the Facility. Under the direction of on-site Corrections staff, the City also assists with inmate custody and Facility security. The Facility is located in Coalinga, California, and is designed to accommodate an average daily population of 391 male inmates.

Corrections requested the Department of Finance, Office of State Audits and Evaluations (Finance), to perform a fiscal compliance audit of contract R89.1591.100.

## **Review Results:**

### ***Internal Control Weaknesses—City Operations:***

- The City does not timely prepare monthly reconciliations of its various bank accounts including those used to administer Facility operations.
- The City lacks a citywide cost allocation plan that allocates administrative overhead costs in a systematic and equitable manner to all its cost centers.
- The City does not adequately segregate payroll duties.

### ***Internal Control Weaknesses—Facility Operations:***

- The Facility lacks adequate control over cash collected from photo and car wash sales.
- The Facility lacks adequate control over inmates' cash receipts.
- The Facility does not consistently record Equipment Replacement Fund purchases in the equipment inventory listing reported to Corrections.

For further details, refer to the *Findings and Recommendations* section of this report.

# BACKGROUND, SCOPE, AND METHODOLOGY

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## BACKGROUND

Corrections administers the Community Correctional Facility Program (Program). The Program is intended to ease overcrowding in state institutions, reduce the need for building new state correctional institutions, and provide a financial benefit for the local community in which the facility is located. The Community Correctional Facilities Administration within Corrections is responsible for the on-site administration of the Program.

Section 6256 of the Penal Code authorizes Corrections to enter into contracts with appropriate public and private entities to provide housing, sustenance, supervision, inmate work incentive programs, education, vocational training, pre-release program assessment planning, and other services, as stipulated. Corrections contracted with the City of Coalinga (City) for operation of the Facility.

As stipulated by contract R89.1591.100 (contract), the Facility's funding is a combination of flat rate expenditure reimbursement and per diem funding. Contract funds are used for the expenditure categories as shown in Appendix A. Table 1 illustrates the contract's funding by fiscal year.

**Table 1: Contract Funding by Fiscal Year**

Fiscal Year	Total Funding
2006-07	\$ 8,503,126
2007-08	8,838,283
<b>Total</b>	<b><u>\$17,341,409</u></b>

The Facility is required to account for funds separately. Below is a description of each fund held by the Facility:

- *Inmate Welfare Fund*—A fund operated for the benefit and welfare of the inmates who are under the jurisdiction of Corrections.
- *Inmate Trust Fund*—A fund that accounts for moneys belonging to inmates through work performed or money received from family or friends.
- *Telephone Revenue Fund*—Special program funds received for inmate telephone services designed for specific activities, as outlined in the contract.
- *Equipment Replacement Fund*—Contract funds allocated for the replacement of Facility equipment.
- *Debt Service Fund*—Accounts for the debt service on the outstanding bonds. We reported on this fund to Corrections in our December 2008 Bond Pay-Off Projection Management Letter.

For purposes of this report, all five funds will collectively be referred to as *funds*.

## SCOPE AND OBJECTIVES

Under an interagency agreement with Corrections, Finance performed a fiscal compliance audit of the contract between the City and Corrections. The audit objectives were to:

- Determine whether the Facility's cost reports accurately represent revenue received and expenditures incurred for the period July 1, 2006 through June 30, 2008.
- Determine whether the Facility's internal control allows for the accurate and timely development of cost reporting data and adequate safeguarding of state assets.
- Determine the Facility's compliance with the contract's fiscal and reporting requirements.
- Determine if the Facility had implemented corrective action for findings reported in Finance's previous audit report issued February 14, 2008.
- Review the activities and contract compliance of the Funds for the period July 1, 2006 through March 31, 2009; except for the Debt Service Fund, which was reported in a separate management letter dated December 2008.

## METHODOLOGY

In order to determine whether the Facility's cost reports are accurate, information reported on the cost reports was traced to the Facility's general ledger and subsidiary ledgers. Revenue and expenditures reported in the Facility's general ledger were assessed for reasonableness. Additionally, a sample of receipts and disbursements was selected and traced to supporting documentation. Our results are presented in Appendix A.

To ensure the Facility maintains an effective internal control system, an understanding of the Facility's internal control was obtained through inquiries and observations of Facility staff. Because the City performs certain accounting services for the Facility, the scope of our work also included a review of relevant City controls and procedures.

A sample of receipts and disbursements was traced to supporting documentation to determine the Facility's compliance with the contract's fiscal and reporting requirements. A review of the contract agreement, Corrections' *Department Operations Manual*, and the Financial Management Handbook for Public Community Correctional Centers dated July 1989 (Handbook) was performed to determine that selected items met the applicable requirements.

To determine if the Facility implemented corrective action for the prior audit findings, we reviewed the prior audit report issued February 14, 2008, interviewed Facility and City staff, and reviewed the current processes and documentation.

The funds were reviewed for completeness and propriety. Our review included the following:

- General internal control assessment.
- Review of the Facility's general ledger and/or subsidiary ledgers.
- Identification of fund transfers.
- Determination of whether transfers met eligibility requirements.

- Assessment of fund disbursements.
- Investigations of unusual transactions.
- Verification that the Facility maintained the funds in accordance with contract requirements.

Findings are presented in the *Findings and Recommendations* section of this report. Immaterial, non-reportable issues and observations were discussed with Facility and City representatives. For informational purposes only, Appendix B presents the statements of fund balance for each of the funds, except for the Inmate Trust and Debt Service Funds.

Recommendations were developed based on contract requirements and guidelines set forth in the Handbook, and other relevant criteria. Fieldwork was conducted from May 2009 through July 2009.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to provide an independent assessment of compliance with the contract, to provide information to improve accountability, and to facilitate decision-making by parties with responsibility to oversee or initiate corrective action. Because our objective was not to perform a financial statement audit, we do not express an opinion on the financial information presented in the Appendices. Furthermore, our evaluation of internal control and tests of compliance was not to provide assurance on the Facility's internal control as a whole, or to provide an opinion on compliance. Accordingly, we do not provide such assurance or express such an opinion.

This report is intended solely for the information and use of Facility, City, and Corrections management, and is not intended to be and should not be used by anyone other than these specified parties. However, this restriction is not intended to limit the distribution of this report, which is a matter of public record.

# FINDINGS AND RECOMMENDATIONS

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## **FINDING 1 Internal Control Weaknesses—City Operations**

### Conditions:

The City manages the Facility's contract operations and related financial resources within its accounting system including a variety of bank accounts. Consequently, our audit procedures included a review of the relevant City control processes and procedures within that system. Based on our review, we identified the following internal control weaknesses:

- A. The City does not timely prepare reconciliations of its various bank accounts including those used to administer Facility operations. As of May 29, 2009, the City had not completed bank reconciliations for July 2008 through April 2009. This includes bank accounts used to administer Facility funds such as the City's money market, Local Assistance Investment Fund, general checking, and payroll checking. Further, we reviewed the bank reconciliations prepared prior to July 2008 and noted that they lacked preparation and supervisory review/approval dates. The lack of timely bank reconciliation preparation, review, and approval increases the risk of losses due to errors and fraud that could go undetected in the normal course of City business.

***We reported a similar condition in our prior audit report issued February 14, 2008.***

- B. The City lacks a citywide cost allocation plan that allocates administrative overhead costs to all its cost centers in an equitable and systematic manner. Instead, the City prepares a worksheet calculating administrative overhead costs allocated to the Facility only, rather than to all the City's cost centers. Consequently, the Facility's cost allocation worksheets submitted annually to Corrections do not constitute a complete cost allocation plan.

Without a citywide cost allocation plan, there is no assurance that overhead costs are allocated equitably to all cost centers.

***We reported a similar condition in our prior audit report issued February 14, 2008.***

- C. The City does not adequately segregate its payroll duties. Specifically, both the City payroll manager and payroll clerk perform the following incompatible duties:

- Enter new employees, modify existing employees, and remove departing employees in the payroll system.
- Enter employees' timesheet information into the payroll system.
- Print payroll checks, maintain check stocks, and sign the Mayor Pro Tem's and Mayor's names with the electronic signature.
- Maintain attendance reports.

Because the City has not segregated its payroll functions between the available personnel, the payroll transactions are at risk of undetected errors and irregularities. There is no independent review.

Criteria: Section II.H of the Handbook, states it is the responsibility of the Project Director and Fiscal Officer to implement adequate internal control procedures. It is the city and/or county's responsibility to monitor these controls. The contracted city and/or county will be held responsible for any misappropriation of contracted funds. Section II.H also requires that adequate internal controls be implemented to ensure proper safeguarding for state and Facility assets.

Section III C.10 of the Handbook, states that administrative overhead costs incurred by the administrative branch of the organization for services provided to the contracted program must be measurable and applicable to the facility program. In addition, the Handbook states that the cost allocation plan must include written justification for the method used in allocating administrative overhead costs to the contracted program.

- Recommendations:
1. Ensure bank reconciliations are completed timely and the reconciliations are reviewed for accuracy. Document evidence of review.
  2. Prepare and submit to Corrections citywide cost allocation plans that equitably distribute the City's administrative overhead costs to all its cost centers including the Facility.
  3. Ensure adequate segregation of payroll duties including an appropriate independent review of payroll transactions and documents.

**FINDING 2 Internal Control Weaknesses—Facility Operations**

Conditions: We noted the following deficiencies in the Facility's internal control:

- A. The Facility lacks adequate internal control over cash collected from photo and car wash sales. Specifically, a tracking mechanism that ensures all cash received is remitted to the accounting staff for further processing does not exist. Instead, photo and car wash cash sales are accumulated (without sales

records or pre-numbered receipts) in envelopes that are eventually forwarded to accounting staff without appropriate transfer receipts.

- B. The Facility lacks internal control over inmates' cash receipts from family and friends. Specifically, only one Facility staff opens inmates' mail containing checks or money orders. Without a second person witnessing the cash receiving process and signing the cash receipt record, there is no assurance that inmate cash is properly received, accounted for, and deposited intact.
- C. The Facility does not consistently record its Equipment Replacement Fund (ERF) purchases in the equipment inventory listing reported to Corrections. Contract R89.1591.100 provides for \$90,000 per year for the ERF, of which an average of \$82,000 is spent annually to purchase non-expendable equipment replacements. Our testing identified 37.5 percent of ERF purchases were not recorded in the equipment inventory list submitted to Corrections. For example, an air conditioning unit acquired in April 2008 for \$10,364 was not included. Consequently, there is no assurance that the Facility's inventory listing is complete or accurate.

***We reported a similar condition in our prior audit report issued February 14, 2008.***

Criteria: Section II.H of the Handbook, states it is the responsibility of the Project Director and Fiscal Officer to implement adequate internal control procedures. It is the city and/or county's responsibility to monitor these controls. The contracted city and/or county will be held responsible for any misappropriation of contracted funds. Section II.H also requires that adequate internal controls be implemented to ensure proper safeguarding for state and Facility assets.

Part 6A of the Handbook, requires the Facility to perform a yearly inventory of all equipment, regardless of funding source, and to send that listing to Corrections.

- Recommendations:
- 1. Ensure photo and car wash receipts are adequately controlled and accounted for using sales tickets, pre-numbered receipts, and cash transfer records.
  - 2. Ensure the inmate cash receipt process is witnessed by a second person who signs the cash receipt record.
  - 3. Ensure all equipment purchases are recorded in the annual equipment listing reported to Corrections.

APPENDIX A

SCHEDULE OF REPORTED AND  
AUDITED REVENUE AND EXPENDITURES

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**Claremont Custody Center Community Correctional Facility  
Contract R89.1591.100  
Schedule of Reported and Audited Revenue and Expenditures  
For the Period July 1, 2006 through June 30, 2007**

<u>Category</u>	<u>Contract Budget</u>	<u>Reported</u>	<u>Questioned</u>	<u>Audited</u>
Revenue:				
Contract Revenue	\$7,517,963	\$7,203,749	\$ 0	\$7,203,749
Lease Revenue	<u>985,163</u>	<u>945,179</u>	<u>0</u>	<u>945,179</u>
Total Revenue	<u>8,503,126</u>	<u>8,148,928</u>	<u>0</u>	<u>8,148,928</u>
Expenditures:				
Personnel	4,160,092	4,190,230	0	4,190,230
Training	67,347	45,004	0	45,004
General Operating	1,111,677	472,041	0	472,041
Medical Services	9,851	7,177	0	7,177
Consultant (Contracted) Services	355,933	51,667	0	51,667
Property Liability Insurance	120,811	95,049	0	95,049
Equipment Depreciation	92,790	90,000	0	90,000
Administrative Overhead	401,004	401,004	0	401,004
Food	501,098	644,973	0	644,973
Inmate Clothing	86,049	76,874	0	76,874
Facility Lease	<u>985,163</u>	<u>990,213</u>	<u>0</u>	<u>990,213</u>
Total Expenditures	<u>\$7,891,815</u>	<u>\$ 7,064,232</u>	<u>\$ 0</u>	<u>\$7,064,232</u>
Service Fee	<u>\$ 611,311</u>	<u>\$ 566,399</u>	<u>\$ 0</u>	<u>\$ 566,399</u>
Gain/(Loss)				\$ 518,297

APPENDIX A (Continued)

SCHEDULE OF REPORTED AND  
AUDITED REVENUE AND EXPENDITURES

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**Claremont Custody Center Community Correctional Facility  
Contract R89.1591.100  
Schedule of Reported and Audited Revenue and Expenditures  
For the Period July 1, 2007 to June 30, 2008**

<u>Category</u>	<u>Contract Budget</u>	<u>Reported</u>	<u>Questioned</u>	<u>Audited</u>
Revenue:				
Contract Revenue	\$7,852,520	\$ 7,706,508	\$ 0	\$7,706,508
Lease Revenue	<u>985,763</u>	<u>1,021,925</u>	<u>0</u>	<u>1,021,925</u>
Total Revenue	<u>8,838,283</u>	<u>8,728,433</u>	<u>0</u>	<u>8,728,433</u>
Expenditures:				
Personnel	4,332,893	4,457,197	0	4,457,197
Training	73,393	58,348	0	58,348
General Operating	1,207,767	470,289	0	470,289
Medical Services	10,223	8,791	0	8,791
Consultant (Contracted) Services	358,528	294,855	0	294,855
Property Liability Insurance	125,764	61,563	0	61,563
Equipment Depreciation	92,790	92,970	0	92,970
Administrative Overhead	401,004	401,004	0	401,004
Food	502,470	667,326	0	667,326
Inmate Clothing	86,285	74,908	0	74,908
Facility Lease	<u>985,763</u>	<u>989,063</u>	<u>0</u>	<u>989,063</u>
Total Expenditures	<u>\$8,176,880</u>	<u>\$ 7,576,314</u>	<u>\$ 0</u>	<u>\$7,576,314</u>
Service Fee	<u>\$ 661,403</u>	<u>\$ 661,403</u>	<u>\$ 0</u>	<u>\$ 661,403</u>
Gain/(Loss)				\$ 490,716

APPENDIX B  
INMATE WELFARE FUND  
BALANCES

**Claremont Custody Center Community Correctional Facility  
Contract R89.1591.100  
Inmate Welfare Fund Balances  
For the Period July 1, 2006 through March 31, 2009**

	<u>July 1, 2006 to June 30, 2007</u>	<u>July 1, 2007 to June 30, 2008</u>	<u>July 1, 2008 to March 31, 2009</u>
Beginning Balance	\$147,634	\$165,175	\$167,032
Prior Year Adjustment (1)	<u>15,000</u>	<u>0</u>	<u>0</u>
Adjusted Beginning Balance	162,634	165,175	167,032
Deposits	261,979	262,580	171,918
Interest Income (2)	<u>3,299</u>	<u>2,199</u>	<u>2,062</u>
Total Receipts	<u>265,278</u>	<u>264,779</u>	<u>173,980</u>
Disbursements	<u>(262,737)</u>	<u>(262,922)</u>	<u>(157,839)</u>
Ending Balance	<u>\$165,175</u>	<u>\$167,032</u>	<u>\$183,173</u>

**Notes:**

- (1) Correction of a FY 2004 Journal Entry transferring \$15,000 to the Inmate Trust Fund (ITF) as a monthly inmate pay disbursement reserve, pending reimbursement from Corrections. In 2004 this amount should have been recorded in the Inmate Welfare Fund (IWF) as "Due From the ITF"; instead, it was recorded as an IWF disbursement, thereby inappropriately reducing the Fund Balance.
- (2) Estimated accrued interest earned (July 1, 2008 to March 31, 2009) by IWF cash balances deposited in the City cash pool. The City calculates and allocates interest to the constituent pool funds at year-end only.

APPENDIX B  
INMATE TELEPHONE REVENUE FUND  
BALANCES

**Claremont Custody Center Community Correctional Facility  
Contract R89.1591.100  
Inmate Telephone Revenue Fund Balances  
For the Period July 1, 2006 through March 31, 2009**

	<u>July 1, 2006 to June 30, 2007</u>	<u>July 1, 2007 to June 30, 2008</u>	<u>July 1, 2008 to March 31, 2009</u>
Beginning Balance	\$318,215	\$287,437	\$281,849
Prior Year Adjustment (1)	<u>8,881</u>	<u>0</u>	<u>0</u>
Adjusted Beginning Balance	327,096	287,437	281,849
Deposits	197,792	149,104	58,902
Interest Income (2)	<u>6,935</u>	<u>6,568</u>	<u>5,064</u>
Total Receipts	<u>204,727</u>	<u>155,672</u>	<u>63,966</u>
Disbursements	<u>(244,386)</u>	<u>(161,260)</u>	<u>(43,046)</u>
Ending Balance	<u>\$287,437</u>	<u>\$281,849</u>	<u>\$302,769</u>

**Notes:**

- (1) Prior year revenue adjustment for unpaid interest on the Inmate Telephone Revenue Fund (ITRF) cash balances deposited in the City cash pool during FY 2002-03, 2003-04, and 2004-05.
- (2) Estimated accrued interest earned (July 1, 2008 to March 31, 2009) by ITRF cash balances deposited in the City cash pool. The City calculates and allocates interest to the constituent pool funds at year-end only.

APPENDIX B  
EQUIPMENT REPLACEMENT FUND  
BALANCES

**Claremont Custody Center Community Correctional Facility  
Contract R89.1591.100  
Equipment Replacement Fund Balances  
For the Period July 1, 2006 through March 31, 2009**

	<u>July 1, 2006 to June 30, 2007</u>	<u>July 1, 2007 to June 30, 2008</u>	<u>July 1, 2008 to March 31, 2009</u>
Beginning Balance	\$311,756	\$ 32,929	\$ 40,879
Prior Year Adjustment (1)	<u>0</u>	<u>0</u>	<u>192,000</u>
Adjusted Beginning Balance	311,756	32,929	232,879
Deposits	90,000	92,970	54,232
Interest Income (2)	<u>551</u>	<u>719</u>	<u>476</u>
Total Receipts	<u>90,551</u>	<u>93,689</u>	<u>54,708</u>
Disbursements	<u>(369,378)</u>	<u>(85,739)</u>	<u>(66,112)</u>
Ending Balance	<u>\$ 32,929</u>	<u>\$ 40,879</u>	<u>\$221,475</u>

**Notes:**

- (1) The City reversed an unauthorized FY 2003-04 transfer from the ERF to the Facility's General Fund. Finance audit report (No. 05-5240-008, dated September 2004) disallowed the transfer. This 2008-09 reversal includes the transfer of the related cash from the Facility's General Fund to the ERF.
- (2) Estimated accrued interest earned (July 1, 2008 to March 31, 2009) by ERF cash balances deposited in the City cash pool. The City calculates and allocates interest to the constituent pool funds at year-end only.

## CITY'S RESPONSE

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155 W. Duran Avenue  
Coalinga, CA 93210

Phone (559) 935-1531  
FAX (559) 935-0995  
www.coalinga.com

January 27, 2010

Department of Finance  
Office of State Audits and Evaluations  
300 Capitol Mall, Suite 801  
Sacramento, CA. 95815

RE: Coalinga Claremont Custody Center Facility- Audit Report

Dear Mr. David Botelho:

The City of Coalinga has received the draft audit report for the Claremont Custody Center Facility for the period July 1, 2006 through March 30, 2009. The appropriate City staff have reviewed the audit findings and prepared a written response to each of the findings. The City of Coalinga anticipates receiving clarification on our responses so we may proceed in ensuring that proper measures are taken to maintain fiscal compliance. Enclosed you will find written responses to each audit finding as well as an allocation schedule of administrative costs to other Cost Centers, as well as policy and procedures #529, #533, and #502 for the Claremont Custody Center.

We thank you for your time and anticipated understanding. If you have any questions please feel free to contact me at (559)935-1531.

Sincere Regards,

Original signed by:

Robert Barron III, Financial Services Director

Cc: City Files  
Bill Skinner, City Manager

CALIFORNIA DEPARTMENT OF CORRECTIONS  
DEPARTMENT OF FINANCE AUDIT  
CLAREMONT CUSTODY CENTER  
July 1, 2006 through March 31, 2009

	DOF Audit Findings & Recommendations	Claremont Custody Center's Response to Findings & Recommendations	Date of Completion	Comments
<b>FINDING #1: INTERNAL CONTROL WEAKNESSES – CITY OPERATIONS</b>				
	<p><b>Condition:</b> The City does not timely prepare reconciliations of its various bank accounts including those used to administer Facility operations. As of May 29, 2009, the City had not completed bank reconciliations for July 2008 through April 2009. This includes bank accounts used to administer Facility funds such as the City's money market, Local Assistance Investment Fund, general checking, and payroll checking. Further, we reviewed the bank reconciliations prepared prior to July 2008 and noted that they lacked preparation and supervisory review/approval dates. The lack of timely bank reconciliation preparation, review, and approval increases the risk of losses due to errors and fraud that could go undetected in the normal course of City business.</p> <p><b>Recommendation:</b> Ensure bank reconciliations are completed timely and the reconciliations are reviewed for accuracy. Document evidence of review.</p> <p><b>Condition:</b> The City lacks a citywide cost allocation plan that allocates administrative overhead costs to all its cost centers in an equitable and systematic manner. Instead, the City prepares a worksheet calculating administrative overhead costs allocated to the Facility only, rather than to all the City's cost centers. Consequently, the Facility's cost allocation worksheets submitted annually to Corrections do not constitute a complete cost allocation plan. Without a citywide cost allocation plan, there is no assurance that overhead costs are allocated equitably to all cost centers.</p> <p><b>Recommendation:</b> Prepare and submit to Corrections citywide cost allocation plans that equitably distribute the City's administrative overhead costs to all its cost centers including the Facility.</p>	<p>The City Finance Department has fully reconciled various bank accounts for the reconciliations indicated in the report from July 2008 to April 2009. The City has these bank reconciliations completed as of August 2009. The City also is current in all bank account reconciliations to date. Reconciliations are done timely and evidence of review is done by the appropriate accounting personnel.</p> <p>The City of Coalinga does have a cost allocation plan that administers its costs to all its cost centers in an equitable and systematic manner. Accounting personnel was believed to have sent the cost allocation plan for the City along with the Cost Allocation plan for the facility. It is our oversight if the Department of Finance staff did not receive them during the end of the Facility Audit. Attached you will find the City Wide cost allocation plan for the periods audited. The City does allocate its administrative overhead costs equitably however, in the Facility contract the City has been limited to transfer costs of only \$401,113 annually within the contract. As the City administrative costs increase it cannot transfer the additional costs equitably to the Facility due to the constraints of the contract. As a result City cost centers will continue to receive inequitable allocations as costs increase. The City will continue to develop a cost allocation plan for administrative overhead cost for all cost centers including the Facility.</p>		

**FINDING #1: INTERNAL CONTROL WEAKNESSES – CITY OPERATIONS (CONT.)**

<p><b>Condition:</b> The City does not adequately segregate its payroll duties. Specifically, both the City payroll manager and payroll clerk perform the following incompatible duties:</p> <ul style="list-style-type: none"> <li>◦ Enter new employees, modify existing employees, and remove departing employees in the payroll system.</li> <li>◦ Enter employees' timesheet information into the payroll system.</li> <li>◦ Print payroll checks, maintain check stocks, and sign the Mayor Pro Tem's and Mayor's name with the electronic signature.</li> <li>◦ Maintain attendance reports.</li> </ul> <p>Because the City has not segregated its payroll functions between the available personnel, the payroll transactions are at risk of undetected errors and irregularities. There is not independent review.</p> <p><b>Recommendation:</b> Ensure adequate segregation of payroll duties including an appropriate independent review of payroll transactions and documents.</p>	<p>The Finance Department oversees the payroll function of the City. We have a payroll technician that handles the payroll functions. We have a Finance Manager that oversees the payroll functions and duties. The payroll is also overseen by the Assistant Financial Services Director and Finance Director. All payroll transactions of modifying existing employees, removing departing employees will be signed off by either director. The Payroll Technician enters the timesheet information into the system and the Finance Manager will review the payroll register. If during the payroll process the payroll technician is not available the Finance Manager will enter the timesheets and proceed with payroll. Under this procedure the Assistant Finance Director or the Finance Director will review the timesheets and sign off on the payroll register.</p> <p>The City uses electronic signature of the Mayor and Pro Tem's signature due to the nature of prohibited time schedules. However with payroll procedures segregated this practice remains in place. The City Finance Department to maintain a system of checks and balances will have unannounced payroll audits and have employees come in and sign for their checks and show proper city identification of employment. We believe this will satisfy the electronic check signatures and further satisfy the monitoring of segregation of duties of payroll staff.</p>
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**FINDING #2: INTERNAL CONTROL WEAKNESSES – FACILITY OPERATIONS**

<p><b>Condition:</b> The Facility lacks adequate internal control over cash collected from photo and car wash sales. Specifically, a tracking mechanism that ensures all cash received is remitted to the accounting staff for further processing does not exist. Instead, photo and car wash sales are accumulated (without sales records or pre-numbered receipts) in envelopes that are eventually forwarded to accounting staff without appropriate transfer receipts.</p> <p><b>Recommendation:</b> Ensure photo and car wash receipts are adequately controlled and accounted for using sales tickets, pre-numbered receipts, and cash transfer records.</p> <p><b>Condition:</b> The Facility lacks internal control over inmates' cash receipts from family and friends. Specifically, only one Facility staff opens inmates' mail containing checks or money orders. Without a second person witnessing the cash receiving process and signing the cash receipt record, there is no assurance that inmate cash is properly received, accounted for, and deposited intact.</p> <p><b>Recommendation:</b> Ensure the inmate cash receipt process is witnessed by a second person who signs the cash receipt record.</p>	<p>An addition to Policy &amp; Procedure #533 – Car Wash and #529 – Inmate Canteen has been amended to reflect the recommendations (See attached Policy 529 Section VII)</p> <p>An addition to Policy &amp; Procedure #502 – Inmate Mail has been amended to reflect the recommendations (See attached Policy Section IV, G2)</p>		
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