



March 8, 2010

Mr. Matthew Cate, Secretary  
California Department of Corrections  
and Rehabilitation  
P.O. Box 942883  
Sacramento, CA 94283-0001

Dear Mr. Cate:

**Management Letter—California Department of Corrections and Rehabilitation, Combined Inmate Welfare Fund for the Fiscal Year Ended June 30, 2008**

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its financial audit of the California Department of Corrections and Rehabilitation's (Department) Inmate Welfare Fund (IWF) for the fiscal year ended June 30, 2008. In planning and performing our audit of the IWF's financial statements for the fiscal year then ended, we considered the Department's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of a matter that requires actions and presents an opportunity for improving internal controls. This management letter summarizes our comments and recommendations regarding this matter. This letter does not affect our audit report dated March 9, 2010 on the IWF's financial statements.

**Observation: Lack of Support for \$1 Million Overhead Allocation**

In accordance with the Department's 2007-08 allocation order, the IWF paid \$1 million of Departmental overhead in November 2007. However, the Department was unable to provide documentation supporting how the \$1 million of overhead was determined. The lack of documentation required alternative audit procedures to be performed to assess the reasonableness of the amount.

Section 20050 of the State Administrative Manual specifies that the elements of a satisfactory system of internal accounting and administrative controls shall include, but are not limited to, a system of authorization and record keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

Because the absence of supporting documentation impairs management's review and control of the reasonableness and accuracy of the allocated amounts, we recommend the Department formally document the allocation methodology and calculations supporting the IWF overhead allocation and maintain those documents for audit. Such practice will help to ensure the reliability of the IWF's financial reports.

We discussed this issue with IWF management on December 22, 2009.

This letter is intended as an internal management tool to assist the Department in improving control and accountability for the IWF.

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

We appreciate the assistance and cooperation of Department management and staff. If you have any questions regarding this letter, please contact Cheryl Lyon, Manager, or James Kong, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

cc: Mr. Scott Kernan, Undersecretary, Administration, California Department of Corrections and Rehabilitation  
Ms. Lori Gillihan, Director, Division of Support Services, California Department of Corrections and Rehabilitation  
Mr. Richard Krupp, Assistant Secretary, Office of Audits and Compliance, California Department of Corrections and Rehabilitation  
Ms. Kim Holt, External Audits Manager, Office of Audits and Compliance, California Department of Corrections and Rehabilitation  
Mr. Tim Gilpin, Associate Director, Accounting Services, California Department of Corrections and Rehabilitation  
Ms. Judy Parker, Accounting Administrator II, Accounting, Inmate Welfare Fund, California Department of Corrections and Rehabilitation