

County of Santa Cruz 153

AUDITOR-CONTROLLER'S OFFICE

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Chief Deputy Auditor-Controllers

Pam Silbaugh, Accounting
Suzanne Young, Audit and Systems
Kathleen Hammons, Budget and Tax

January 14, 1998

AGENDA: January 26, 1999

BOARD OF SUPERVISORS

County of Santa Cruz
701 Ocean Street
Santa Cruz, CA 95060

SUBJECT: **REPORT ON AUDIT OF INMATE WELFARE FUND**

Dear Members of the Board:

Attached is our report on the audit of the Inmate Welfare Fund, which is administered by the Sheriff, for the fiscal years ended June 30, 1996 and 1997. Our examination included a review of the internal control structure as it relates to the Fund. We noted certain matters involving the internal control structure and its operation that are described in the Audit Findings and Recommendations section of the report. We do not consider these matters to be material weaknesses.

We have discussed our findings and recommendations with management of the Sheriff's Office and their response to our recommendations is included in our report. We wish to thank the Sheriff and his staff for their cooperation and assistance in conducting this audit. There is no further action required by your Board at this time.


IT IS THEREFORE RECOMMENDED THAT YOUR BOARD ACCEPT AND FILE THIS REPORT.

Respectfully submitted,


GARY A. KNUTSON

Auditor-Controller

RECOMMENDED:


for SUSAN A. MAURIELLO
County Administrative Officer

GK:SY

Attachment

cc: CAO

Sheriff

Auditor-Controller

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REPORT ON AUDIT OF
SHERIFF'S INMATE WELFARE FUND
FOR THE FISCAL YEARS ENDED
JUNE 30, 1996 AND 1997

Auditor-Controller County of Santa Cruz
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AUDITORS REPORT

August 31, 1998

BOARD OF SUPERVISORS

County of Santa Cruz

701 Ocean Street

Santa Cruz, CA 95060

We have audited the accompanying special purpose statements of cash receipts, disbursements, and cash balances of the Inmate Welfare Fund (the Fund) for the fiscal years ended June 30, 1996 and 1997. These statements of cash receipts, disbursements, and cash balances are the responsibility of the Santa Cruz County Sheriff who administers the Fund. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for an opinion.

As described in Note 1, these financial statements are prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

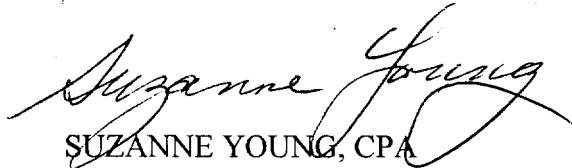
The cash balances do not include cash held in a checking account. The exact amount of Fund cash in the checking account has not been determined, however it is not a material amount.

In our opinion, the statements referred to above present fairly in all material respects, the cash receipts, disbursements, and cash balances of the Fund for the fiscal years ended June 30, 1996 and 1997, on the basis of accounting described in Note 1.

This report is intended for the information and use of the Sheriff, the Board of Supervisors and the management of Santa Cruz County. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

Management is responsible for the Fund's compliance with the accounting systems which are prescribed by the California Penal Code and Title 15 of the California Administrative Code. In connection with the audit referred to above, we selected and tested transactions and records to determine the compliance with laws, regulations, noncompliance with which could have a material effect on the statement.

The results of our tests indicate that for the items tested, management complied with those provisions of laws and regulations, noncompliance with which could have a material effect on the statements of cash receipts, disbursements, and cash balances. In connection with our audit, nothing came to our attention that caused us to believe that management had failed to comply with any laws or regulations. However, it should be noted that our examination was not directed primarily toward obtaining knowledge of noncompliance with such requirements.


SUZANNE YOUNG, CPA
CHIEF DEPUTY AUDITOR-CONTROLLER



County of Santa Cruz

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AUDITORS REPORT ON INTERNAL CONTROLS

August 31, 1998

BOARD OF SUPERVISORS

County of Santa Cruz

701 Ocean Street

Santa Cruz, CA 95060

We have audited the special purpose statements of cash receipts, disbursements, and cash balances of the Fund for the fiscal years ended June 30, 1997, and 1996, and have issued our report thereon dated August 31, 1998.

We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States, the State Penal Code and Title 15 of the California Administrative Code. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free from material misstatement.

Management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and relative costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the special purpose statement in accordance with Government Auditing Standards. Because of inherent limitations in any internal control structure, errors and irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

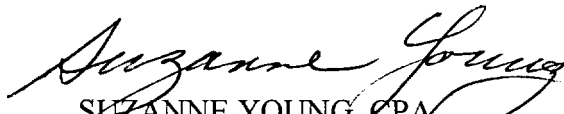
In planning and performing our audit of the special purpose statements for the fiscal years ended June 30, 1996 and 1997, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the statements of cash receipts, disbursements, and cash balances, and not to provide assurance on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants.

A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

This report is intended for the information of the Sheriff, the Board of Supervisors and the management of Santa Cruz County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.


SUZANNE YOUNG, CPA
CHIEF DEPUTY AUDITOR-CONTROLLER

INMATE WELFARE FUND
CASH RECEIPTS, DISBURSEMENTS, AND CASH BALANCES
FOR FISCAL YEARS ENDED JUNE 30, 1997 AND 1996

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	<u>1997</u>	<u>1996</u>
Cash Receipts		
Commissary sales	\$ 267,494	\$ 212,577
Inmate telephones	259,057	165,554
Interest income	25,140	17,525
Miscellaneous income	6,799	92
Recycling	1,063	1,039
Laundry	1,008	973
Refunds	564	1,616
Total Cash Receipts	<u>561,124</u>	<u>399,376</u>
Cash Disbursements		
Commissary items	114,562	104,913
Detention maintenance transfer (Note 3)	60,579	0
Staff	52,602	46,399
Educational programs	39,448	37,569
Chaplain program	25,716	17,509
Stamped envelopes	18,128	12,790
Blaine street flooring	12,728	0
Educational and recreational items	10,818	11,146
Hygiene supplies	10,321	12,313
Audit fees	8,000	0
Friends outside	7,717	6,571
Arts program	7,699	8,835
Photo imaging system	0	7,571
Animal bonding	6,674	4,154
Landscaping program	6,347	0
Library program	5,173	6,993
Air tanks	0	4,831
Kitchen items	4,579	1,249
Office furniture	4,433	7,209
Computer and fax machine	0	5,071
Television equipment and repair	3,973	0
Jail Farm classroom	3,927	9,690
Main Jail padding	0	2,835
Medium Facility flooring	2,770	0
Main Jail flooring	2,538	0
Coffee machines	2,137	2,216
Facility equipment and repair	2,100	1,435
Medical carts	2,068	0
Jail Farm landscaping	0	1,667
Reception area upgrade	1,596	227
Inmate writing supplies	1,585	3,867
Interdepartmental charges	1,485	4,073
Safety vents	1,464	0
Miscellaneous expenses	1,403	2,233
Barber supplies	1,340	301
Main Jail clothing carts	1,161	0
Office supplies and equipment	1,029	1,714
Commissary equipment	0	418
Main Jail radio speakers	0	314
Jail Farm athletic field	0	301
Total Cash Disbursements	<u>426,101</u>	<u>326,415</u>

INMATE WELFARE FUND
CASH RECEIPTS, DISBURSEMENTS, AND CASH BALANCES
FOR FISCAL YEARS ENDED JUNE 30, 1997 AND 1996

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	<u>1997</u>	<u>1996</u>
Excess of Receipts Over Disbursements	\$ 135,023	\$ 72,961
Beginning Cash Balance	<u>349,913</u>	<u>276,952</u>
Ending Cash, Balance (Note 2)	\$ 484,936	\$ <u><u>349,913</u></u>

INMATE WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1997

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1. **BASIS OF ACCOUNTING**

The Inmate Welfare Fund is accounted for as a trust fund and accounting records are maintained on a cash basis. Receipts are recorded when they are deposited into the County Treasury and disbursements are recorded when warrants for payment are issued.

2. **CASH BALANCE**

The cash balances do not include cash held in a checking account, however this cash is not of a material amount. We were unable to determine what portion of the bank account cash belongs to the Fund due to a lack of historical records in support of the origination of the bank account.

3. **DETENTION MAINTENANCE TRANSFER**

During fiscal year 1996/97 \$60,579 was transferred from the Fund to the County General Fund for purposes of general maintenance of jail facilities in accordance with Penal Code §4025(e).

INMATE WELFARE FUND
STATUS OF PRIOR YEAR RECOMMENDATIONS
JUNE 30, 1997

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RECOMMENDATION	STATUS
<u>Daily Deposits</u>	
Sheriff arrange staff duties to ensure daily deposits of cash.	Not Implemented.
<u>Records Retention</u>	
Maintenance of detailed records and supporting documentation related to IWF transactions. Listings of these records and documents to facilitate their retrieval from the County Warehouse when necessary.	Implemented
<u>Use of petty cash fund</u>	
Proper documentation and expense classification of all petty cash expenditures.	Implemented.

INMATE WELFARE FUND
GENERAL INFORMATION
JUNE 30, 1997

Introduction

The Inmate Welfare Fund was established in accordance with Penal Code Section 4025 for the benefit, education and welfare of the inmates confined within the detention facilities. The Fund is used to maintain a commissary for the inmates where they may purchase candy, snacks, and personal hygiene items. Profit on the sale of commissary items helps to defray the cost of other services provided to the inmates. The Fund provides educational programs, purchases sporting equipment and other recreational items, and may be used for maintenance of the jail facilities. The Fund is not used to pay required expenses of confining inmates in the local detention facility such as clothing, food, housing or medical services.

The Sheriffs Office has contracts with outside agencies and individuals to provide adult education, job training, library services, an art program and chaplain services through the Fund. The Sheriffs Office has a contract with Santa Cruz City Schools and the Pajaro Valley Unified School District to provide basic education, and preparation classes to prepare for the General Education Diploma (GED) and GED testing services for qualified inmates. The Volunteer Center - Friends Outside is a group providing visits and special requests for inmates.

Audit Authority

Section 1043, Title 15 of the California Administrative Code requires the administrator of the Inmate Welfare Fund to develop a written policy regarding the appropriate use of the fund in accordance with Penal Code Section 4025. Such policy is required to include provisions for independent audit.

INMATE WELFARE FUND
AUDIT FINDINGS AND RECOMMENDATIONS
JUNE 30, 1997

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Introduction

As part of our audit, **we made a** study and evaluation of the Sheriffs system of internal control as it relates to the Inmate Welfare Fund. Our study and evaluation would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data. However, our study and evaluation did disclose certain matters which we believe should be changed to improve the accounting, reporting, and internal control systems.

1. Deposits Not in Compliance with County Code

Cash received for the Fund is not being deposited intact daily as required by law. Sheriffs personnel usually make deposits weekly, but occasionally they hold money for as long as two weeks before making a deposit. Section 4.36.50 of the Santa Cruz County Code requires that all money collected by any county department, officer or employee be deposited intact daily.

Recommendation

To ensure compliance with County Code, we recommend that **the** Sheriff:

- 1) arrange staff duties and procedures to include daily deposits of cash, and
- 2) assign a manager to monitor and report on the frequency of deposits to ensure compliance with County Code.

2. Inmate Welfare Funds Inappropriately Commingled

A portion of the money from the Fund is commingled in a checking account with money belonging to inmates. Because there **were** insufficient records relating to the **checking** account, we were unable to determine what portion of the checking account balance belongs to the Fund and what portion belongs to the inmates.

The Inmate Welfare Fund was established in accordance with Penal Code §4025, which also designates specific uses of the Fund. The purpose for establishing a special purpose fund is to provide control and accountability for the assets of that fund. Control and accountability are significantly reduced or lost **when** money from different funds is commingled.

Recommendation

We recommend that the Sheriff

- 1) determine the amount of money in the checking account which belongs to the Fund and the amount which relates to the Sergeant's Cash Box,
- 2) deposit the **money** belonging to the Fund into the County Treasury, and

INMATE WELFARE FUND
AUDIT FINDINGS AND RECOMMENDATIONS
JUNE 30, 1997

- 3) maintain the checking account exclusively for money belonging to inmates.

3. Improper Accounting for Overages and Shortages

A. Shortages in the Sergeant's Cash Box (inmate money) are being replenished from the Fund's petty cash. This is not an appropriate use of the Fund under the authorizing statute. In the same manner, overages from the Sergeant's Box are being inappropriately transferred to the Fund.

B. Staff is not following the proper accounting procedures for overages and shortages. In accordance with generally accepted accounting procedures, the State Controller's *Accounting Standards and Procedures for Counties* provides separate accounts for reporting overages and shortages. Accounting for shortages and overages in this manner provides management with necessary information about operations and allows them to identify transactions requiring further investigation.

Recommendation

- 1) We recommend that the Sheriffs office work with the Auditor-Controller's office to establish an Over and Short Fund and accounting procedures for overages/shortages in the Sergeant's Cash Box.
- 2) We recommend that cash overages and shortages be accounted for separately in accordance with established procedures. Overages are to be deposited and recorded as miscellaneous revenues (subobject 2362); shortages are to be replenished and recorded as miscellaneous expenses (subobject 3462).

4. Excessive Cash Maintained at the Jail

A. Money belonging to inmates at the time they are booked into the jail is maintained in the Sergeant's Cash Box, which generally contains between \$10,000 and \$20,000 in cash. This cash is the total of the inmates money, except for approximately \$3,000 which is kept in a checking account. There is always a risk associated with keeping any cash on hand, and we believe the amount of money kept in the Sergeant's Cash Box is excessive. In order to reduce the risk of loss, the amount of cash in the Sergeant's Box should be limited to what is needed for daily transactions.

B. When counting the cash held in the box, Sheriffs personnel count primarily by bundles rather than by individual bills. This calls into question the accuracy and effectiveness of the counting process, and makes the identification of any overages or shortages difficult or impossible. When funds are not independently verified or deposited in the treasury or bank on a daily basis, particular attention must be paid to the effectiveness of the counting process so that any overages or shortages will be identified.

INMATE WELFARE FUND
AUDIT FINDINGS AND RECOMMENDATIONS
JUNE 30, 1997

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Recommendation

- 1) We recommend that the Sheriff determine the amount of cash on hand necessary to cover typical daily disbursements and reduce the Cash Box balance to an amount sufficient to cover that. The remainder of the inmate cash should be deposited in the checking account. The Sheriff should also establish a dollar limit on *cash* disbursements to outgoing inmates. Amounts above that limit would be paid to the inmates by check.
- 2) We also recommend that the Sheriff direct his staff to count individual bills rather than bundles when they count the money in the Sergeant's Cash Box, and to use a standard preprinted count form to document counting and reconciling the cash.

COUNTY OF SANTA CRUZ
INTER-OFFICE CORRESPONDENCE

DATE: January 11, 1999

TO: Gary Knutson, Auditor Controller

FROM: Steve Robbins, Sheriff's Chief Deputy 

SUBJECT: Inmate Welfare Fund **Draft** Audit Report

We have reviewed your audit for the Inmate Welfare Fund for fiscal years ending June 30, 1996 and 1997. Our response to the findings and recommendations are:

1. Deposits Not in Compliance with County Code

Recommendation: "...arrange staff duties and procedures to include daily deposits of cash..."

Response: Effective February 1999, we will be depositing monies within twenty-four hours of receipt.

Recommendation: "...assign a manager to monitor and report on the frequency of deposits. ..."

Response: I have assigned the Departmental Administrative Analyst to monitor the frequency of deposits.

2. Inmate Welfare Funds Inappropriately Commingled

Recommendation: "...determine the amount of money in the checking account which belongs to the Fund and the amount which relates to the Sergeant's Cash Box....deposit the money belonging to the Fund into the County Treasury...maintain the checking account exclusively for money belonging to inmates.. ."

Response: As of November 30, 1998, the balance in the checking account is \$3,000, all of which is money from the Sergeant's Cash Box. We have deposited all the monies belonging to the Inmate **Welfare** Fund into the Trust Fund.

This checking account is only used for Minimum Security Facilities (Jail Farm and Blaine Street). Because they are Minimum Security inmates, we allow them to have \$40 cash on their persons. The cash is used for vending machine purchases.

As of November 30, 1998, the checking account will be used exclusively for money belonging to inmates.

3. Improper Accounting for Overages and Shortages

Recommendation: "...the Sheriffs office work with the Auditor-Controller's office to establish an Over and Short Fund and accounting procedures for overages/shortages in the Sergeant's Cash Box."

Response: We are working with the Auditor's Office to establish these procedures. We anticipate implementing this recommendation by March 1999.

Recommendation: "...cash overages and shortages be accounted for separately in accordance with established procedures. Overages are to be deposited and recorded as miscellaneous revenues (subobject 2362); shortages are to be replenished and recorded as miscellaneous expenses (subobject 3462)."

Response: We are working with the Auditor's Office to establish these procedures. We anticipate implementing this recommendation by March 1999.

4. Excessive Cash Maintained at the Jail

Recommendation: "...the Sheriff determine the amount of cash on hand necessary to cover typical daily disbursements and reduce the Cash Box balance to an amount sufficient to cover that. The remainder of the inmate cash should be deposited in the checking account. The Sheriff should also establish a dollar limit on cash disbursements to outgoing inmates. Amount above that limit would be paid to the inmate by check."

Response: We are currently researching this issue. There are a number of procedural matters that must be addressed in order to issue checks to outgoing inmates from the Main Jail and Medium facilities. Our current computer program would have to be modified to enable us to issue checks, and an agreement would have to be made with a financial institution to cash these checks at no charge. We will work with the Auditor on addressing this recommendation.

Recommendation: "...the Sheriff direct his staff to count individual bills rather than bundles when they count the money in the Sergeant's Cash Box and to use a standard preprinted form to document counting and reconciling the cash."

Response : I have directed to the Sergeants to count the individual bills. We will design a "cash count" log for the Sergeant's Cash Box effective March, 1999.