

DEL NORTE COUNTY

Audit Report

COURT COSTS AND OTHER RELATED CHARGES PROGRAM

Penal Code Section 4750

July 1, 2004, through June 30, 2007



JOHN CHIANG
California State Controller

December 2007



JOHN CHIANG
California State Controller

December 12, 2007

The Honorable Christie Babich
Auditor-Controller
Del Norte County
981 H Street, Suite 140
Crescent City, CA 95531

Dear Ms. Babich:

The State Controller's Office audited the costs claimed by Del Norte County for the Court Costs and Other Related Charges Program (Penal Code section 4750) for the period of July 1, 2004, through June 30, 2007.

The county claimed \$1,973,477 for the program. Our audit disclosed that \$1,924,942 is allowable and \$48,535 is unallowable. The unallowable costs occurred because the county overclaimed indirect costs. The State paid the county \$1,346,478. Allowable costs claimed exceed the amount paid by \$578,464.

If you disagree with the audit finding[s], you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at CSM's Web site, at www.csm.ca.gov (Guidebook link); you may obtain IRC forms by telephone, at (916) 323-3562, or by e-mail, at csminfo@csm.ca.gov.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/sk:wm

cc: Jeannine Galatioto
County Administrative Officer
Del Norte County
Todd Jerue, Program Budget Manager
Corrections and General Government
Department of Finance

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Del Norte County for the Courts Costs and Other Related Charges Program (pursuant to Penal Code section 4750) for the period of July 1, 2004, through June 30, 2007. The last day of fieldwork was October 11, 2007.

The county claimed \$1,973,477 for the program. Our audit disclosed that \$1,924,942 is allowable and \$48,535 is unallowable. The unallowable costs occurred because the county overclaimed indirect costs. The State paid the county \$1,346,478. Allowable costs claimed exceed the amount paid by \$578,464.

Background

Since 1941, the State has provided reimbursements to counties for the added expense and effort in handling state prison inmate proceedings for specific crimes. In 1974, the State began to include cities in the reimbursement process. Since then other State statutes have expanded the reimbursement criteria to include direct and indirect costs.

Chapter 1310, Statutes of 1986, added Penal Code section 4750. Effective January 1, 1987, this legislation provides that cities and counties will be reimbursed for costs of investigating and prosecuting all crimes committed in state prisons

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Court Costs and Other Related Charges Program for the period of July 1, 2004, through June 30, 2007.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of Government Code section 12410. We did not audit the county's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the county's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Del Norte County claimed \$1,973,477 for costs of the Court Costs and Other Related Charges Program. Our audit disclosed that \$1,924,942 is allowable and \$48,535 is unallowable.

For the fiscal year (FY) 2004-05 claim, the State paid the county \$780,354. Our audit disclosed that \$769,488 is allowable. The State will offset \$10,866 from future payments due the county. Alternatively, the county may remit this amount to the State.

For the FY 2005-06 claim, the State paid the county \$482,917. Our audit disclosed that \$469,734 is allowable. The State will offset \$13,183 from future payments due the county. Alternatively, the county may remit this amount to the State.

For the FY 2006-07 claim, the State paid the county \$83,207. Our audit disclosed that \$685,720 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$602,513, contingent upon available appropriations.

**Views of
Responsible
Officials**

We issued a draft audit report on October 30, 2007. Cynde Landrith, Accountant/Auditor, responded by e-mails dated December 3 and 4, 2007, agreeing with the audit results. This final audit report includes the county's response.

Restricted Use

This report is solely for the information and use of Del Norte County and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

**Schedule 1—
Summary of Program Costs
July 1, 2004, through June 30, 2007**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2004, through June 30, 2005</u>				
Salaries	\$ 110,366	\$ 110,366	\$ —	
Benefits	41,673	41,673	—	
Services and supplies	532,638	532,638	—	
Total direct costs	684,677	684,677	—	
Indirect costs	95,677	84,811	(10,866)	Finding 1
Total program costs	<u>\$ 780,354</u>	769,488	<u>\$ (10,866)</u>	
Less amount paid by the State		(780,354)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (10,866)</u>		
<u>July 1, 2005, through June 30, 2006</u>				
Salaries	\$ 92,689	\$ 92,689	\$ —	
Benefits	44,316	44,316	—	
Services and supplies	262,830	262,830	—	
Total direct costs	399,835	399,835	—	
Indirect costs	83,082	69,899	(13,183)	Finding 1
Total program costs	<u>\$ 482,917</u>	469,734	<u>\$ (13,183)</u>	
Less amount paid by the State		(482,917)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (13,183)</u>		
<u>July 1, 2006, through June 30, 2007</u>				
Salaries	\$ 90,225	\$ 90,225	\$ —	
Benefits	39,026	39,026	—	
Services and supplies	477,849	477,849	—	
Total direct costs	607,100	607,100	—	
Indirect costs	103,106	78,620	(24,486)	Finding 1
Total program costs	<u>\$ 710,206</u>	685,720	<u>\$ (24,486)</u>	
Less amount paid by the State		(83,207)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 602,513</u>		
<u>Summary: July 1, 2004, through June 30, 2007</u>				
Salaries	\$ 293,280	\$ 293,280	\$ —	
Benefits	125,015	125,015	—	
Services and supplies	1,273,317	1,273,317	—	
Total direct costs	1,691,612	1,691,612	—	
Indirect costs	281,865	233,330	(48,535)	
Total program costs	<u>\$ 1,973,477</u>	1,924,942	<u>\$ (48,535)</u>	
Less amount paid by the State		(1,346,478)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 578,464</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Overstated indirect costs**

The county overstated its indirect costs by \$48,535 for the audit period. The overstatement resulted from the county’s miscalculation and application of its indirect cost rates.

The following table summarizes the overstated indirect costs.

	Fiscal Year			Total
	2004-05	2005-06	2006-07	
Indirect costs	\$ (10,866)	\$ (13,183)	\$ (24,486)	\$ (48,535)

The county’s indirect cost rate proposals (ICRP) did not include the cost reimbursements from other departments to the Auditor-Controller’s Office for indirect costs allocated by the County-Wide Cost Allocation Plan (CWCAP). For the audit period, the reimbursements exceeded the Auditor-Controller’s indirect costs, thereby reducing indirect costs incurred to zero and subsidizing direct costs. The Auditor-Controller’s Office is only eligible to use the indirect cost default option of 10% of direct salaries.

In addition, the Probation Department made mathematical errors when calculating its FY 2004-05 and FY 2006-07 indirect cost rates. The indirect cost rate is 63.64% for FY 2004-05 rather than the claimed 63.69%, and 90.26% for FY 2006-07 rather than the claimed 90.59%.

Furthermore, the Sheriff’s Office understated its indirect cost rate for FY 2006-07. The indirect cost rate is 119% rather than the claimed 89.90%.

Indirect costs are defined as costs that are incurred for a common or joint purpose, benefiting more than one program and are not directly assignable to a particular department or program without efforts disproportionate to the result achieved. Compensation for indirect costs is eligible for reimbursement utilizing the procedure provided in the Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.

The claiming instructions for the Court Costs and Other Related Charges Program, pursuant to Penal Code section 4750, allow a county to claim indirect costs using 10% of direct salaries and wages, or to prepare a departmental ICRP.

Recommendation

We recommend the county review its ICRPs to ensure that indirect costs are calculated on the basis of actual increased salaries and benefits that occurred as a result of performing program activities. We also recommend the county revise its current ICRP methodologies to consistently identify allowable indirect costs for various county departments. Further, we recommend the department prepare its ICRPs in a manner consistent with the methodology outlined in OMB Circular A-87.

County's Response

In e-mails dated December 3 and 4, 2007, the county stated the following:

[December 3, 2007] The County agrees with this recommendation.

[December 4, 2007] However, for each of the three years audited the County did submit Indirect Cost Rate Proposals to the State Controller's Office before any claims were sent. ICRPs were sent for each department audited. No response was received from the SCO.

SCO's Comment

We communicated the county's response related to submittal of the Indirect Cost Rate Proposals to the SCO's Accounting and Reporting Division to ensure that a timely response is prospectively provided. Nevertheless, the finding and recommendation are valid and remain unchanged.

FINDING 2— Improvements needed over internal controls

The county does not have adequate controls over its recording, processing, and reporting of claimed costs. Through interviews and review of timesheets, we noted the following internal control weaknesses:

- The Probation Department does not record employee hours on a monthly basis. Rather, employee hours are reported for the duration of each trial.
- The Information Technology Department does not record or report hours in a timely manner. The department provides cumulative hours of time spent on program-related activities over a period of several months to the Auditor-Controller's Office in the form of an email.
- The county's design of its computer-generated program used to prepare claims for reimbursement do not have controls in place to prevent or detect unauthorized access. Further, the county lacks an internal process to report deficiencies to management of this program on a timely basis. These conditions resulted in mathematical errors, and in some instances, the program failed to produce complete records when cases involved more than one inmate.
- The District Attorney's Office and the Probation Department did not document supervisory oversight of time usage. The time records failed to have evidence of supervisory signature indicating a review of the time.

Effective internal controls reduce the possibility of significant errors and irregularities and assists in timely detection if they do occur.

Recommendation

We recommend the county work with the departments to establish policies and procedures to ensure that hours claimed are reported properly and submitted for reimbursement in a timely manner. We also recommend the county work with the department of information technology to improve the design of its computer-generated program.

County's Response

In an e-mail dated December 3, 2007, the county stated the following:

The County agrees with this recommendation. However, the County uses passwords to prevent unauthorized access.

SCO's Comment

The finding and recommendation remain unchanged.

We agree that the county uses passwords to prevent unauthorized access. However, the county does not require a user to change his or her password once authorized to use this program.

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>