

County of Ventura  
AUDITOR-CONTROLLER  
MEMORANDUM

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To: Calvin C. Remington, Director, Probation Agency

Date: December 21, 2006

From: Christine L. Cohen

Subject: **AUDIT OF THE PROPOSITION 36 PROGRAM**

EXECUTIVE SUMMARY

As requested, we have completed our audit of the Proposition 36 (Prop 36) Program. The audit was conducted to evaluate the reasonableness of Prop 36 fiscal activity in anticipation of the program transfer from the Behavioral Health Department to the Probation Agency on March 1, 2006. Specifically, we determined whether: the Prop 36 Trust Fund balance was reasonably stated as of February 28, 2006; and Behavioral Health and the District Attorney's Prop 36 expenditures were allowable and properly supported for the period July 1, 2005 through February 28, 2006. The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors. Our findings are summarized below with details provided in the attached.

Overall, we found the Prop 36 Trust Fund balance of \$1,803,535 to be reasonably stated as of February 28, 2006. However, we noted errors regarding financial reporting to the State and specific instances of discrepancies relating to payroll expenditures. Specifically, our audit disclosed that:

- "Funds Available" at end of fiscal years 2003-04 and 2004-05 were understated by \$27,993 on the Financial Status Reports submitted to the California Department of Alcohol and Drug Programs; and
- Expenditures totaling \$61,086 charged to the Prop 36 Program during fiscal year 2005-06 were not eligible and/or supported with adequate documentation.

In addition, our audit disclosed various miscellaneous discrepancies and issues that we present in the attached report for your consideration and discretionary action.

Probation Agency management initiated corrective action to address areas noted in our report. Corrective action is planned to be completed by December 31, 2006.

Calvin C. Remington, Director, Probation Agency

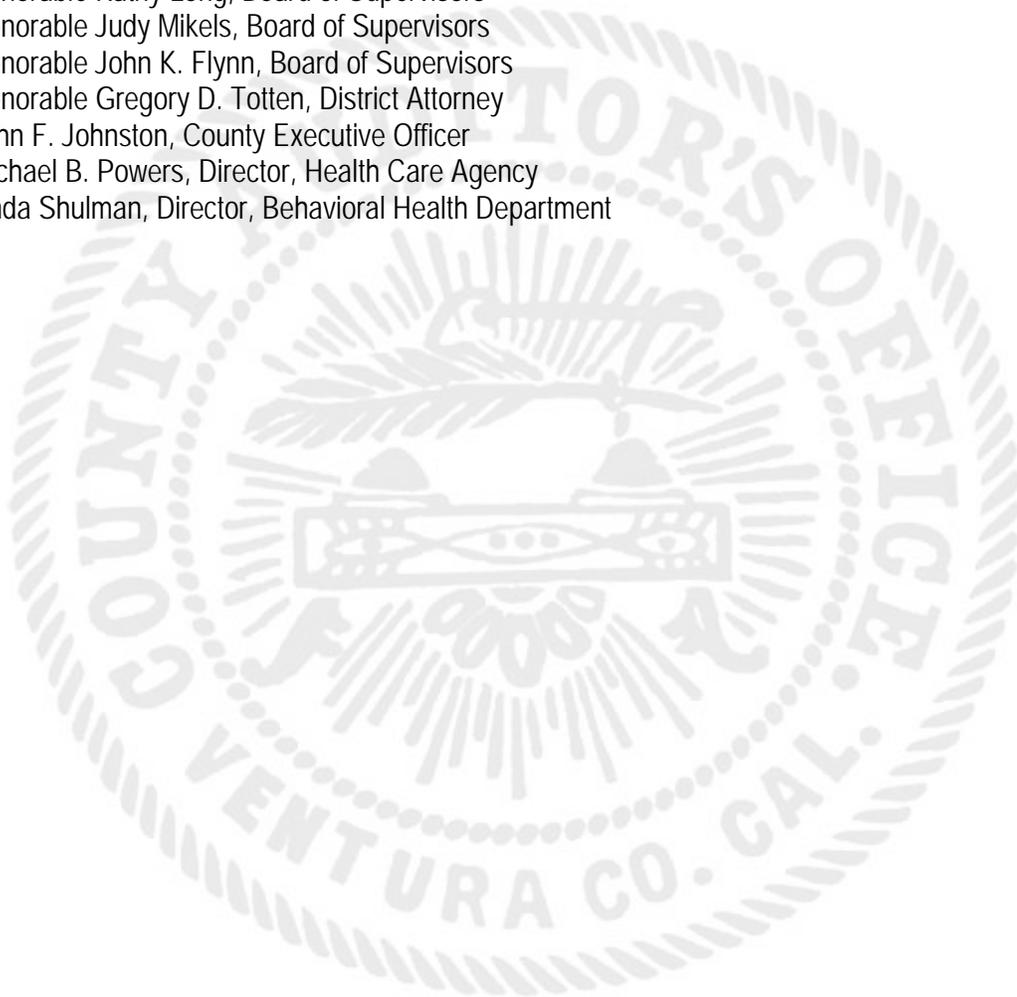
December 21, 2006

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We appreciate the cooperation and assistance extended to us by the management and staff of the Probation Agency, Health Care Agency, and District Attorney's Office during this audit.

Attachment

cc: Honorable Linda Parks, Chair, Board of Supervisors  
Honorable Steve Bennett, Board of Supervisors  
Honorable Kathy Long, Board of Supervisors  
Honorable Judy Mikels, Board of Supervisors  
Honorable John K. Flynn, Board of Supervisors  
Honorable Gregory D. Totten, District Attorney  
John F. Johnston, County Executive Officer  
Michael B. Powers, Director, Health Care Agency  
Linda Shulman, Director, Behavioral Health Department



## AUDIT OF THE PROPOSITION 36 PROGRAM

**BACKGROUND:**

The Substance Abuse and Crime Prevention Act of 2000 (SACPA), also known as Proposition 36 (Prop 36), was passed by California voters in November 2000. Prop 36 allows certain nonviolent drug offenders to receive probation with substance abuse treatment rather than probation without treatment or incarceration. Since the law took effect in July 2001, the Ventura County Behavioral Health Department's Alcohol and Drug Programs has been the County's lead agency for implementation of Prop 36. In December 2005, upon recommendation of the Ventura County Grand Jury, the County Executive Office successfully petitioned the Board of Supervisors to appoint the Probation Agency as the new lead agency. The program transfer was approved by the Board of Supervisors on March 7, 2006, and was effective as of March 1, 2006.

For fiscal year (FY) 2005-06, Behavioral Health budgeted revenues from the State of almost \$2.9 million to operate the Prop 36 Program. SACPA funds are deposited into the County's Prop 36 Trust Fund and used to cover eligible General Fund expenditures incurred by Behavioral Health, Probation, and the District Attorney. SACPA funds not expended in a given fiscal year are "rolled over" into the next fiscal year, and remain in the County's Prop 36 Trust Fund for future use. As of February 28, 2006, the Prop 36 Trust Fund balance was \$1,803,535.

The audit was initiated at the request of the Probation Agency in anticipation of the program transfer from Behavioral Health. During the course of our audit, the most recent audit completed by the State of the County's Prop 36 Program was for FY 2001-02.

**SCOPE:**

Our overall audit objective was to determine whether Prop 36 fiscal activities were reasonable to facilitate the transfer of the program to the Probation Agency on March 1, 2006. Specifically, we determined whether: the Prop 36 Trust Fund balance was reasonably stated as of February 28, 2006; and Behavioral Health and the District Attorney's Prop 36 expenditures were allowable and properly supported for the period July 1, 2005 through February 28, 2006, as defined by the California Code of Regulations (CCR).

We performed audit tests and evaluations using documents processed by Behavioral Health, Probation, the District Attorney, and the Auditor-Controller's Office. The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors using documents for FY 2000-01 through FY 2005-06, as of February 28, 2006.

**FINDINGS:**

Overall, we found the Prop 36 Trust Fund balance of \$1,803,535 to be reasonably stated as of February 28, 2006. The Prop 36 Trust Fund properly recognized all State budget allocations and reflected all State-requested audit adjustments since the inception of the Prop 36 Program through FY 2005-06. In addition, SACPA funds accounted for in the Prop 36 Trust Fund were not commingled with Medi-Cal, client assessment fees, or any other funds in accordance with Title 9, CCR, Section 9517(b).

However, we noted errors regarding financial reporting to the State and specific instances of discrepancies relating to payroll expenditures. Specifically, we noted that: the Financial Status Reports submitted to the

California Department of Alcohol and Drug Programs (ADP) for FY 2003-04 and FY 2004-05 were not accurate; and payroll expenditures charged to the Prop 36 Program were not always eligible or supported with adequate documentation. In addition, our audit disclosed various miscellaneous discrepancies and issues that we present for your consideration and discretionary action.

During the audit, we also noted that the control self-assessment (CSA) questionnaire, which was distributed to all agencies/departments in 2004, was not completed for the Prop 36 Program. Although our audit was narrower in scope than a full internal control review, we believe that the discrepancies identified during our audit may have been avoided had the Prop 36 Program participated in CSA.

Summarized below are the details of the audit findings. Probation Agency management initiated corrective action during the audit as noted.

1. **Inaccurate Financial Status Reports.** Prop 36 "Funds Available," which totaled \$1,040,843 and \$746,886, respectively, at end of FY 2003-04 and FY 2004-05, were understated by \$27,993 on the Annual Financial Status Report (FSR). The understatement was the result of Prop 36 revenue and expenditure amounts being overstated by \$6,199 and \$34,192, respectively, on the FY 2003-04 FSR. The \$6,199 revenue overstatement was due to a data entry error while the \$34,192 expenditure overstatement was the result of unadjusted expenditure figures being used to prepare the FSR. Consequently, the "Funds Available" at the end of FY 2003-04 were understated by \$27,993 and carried-over into the beginning balance for the FY 2004-05 FSR. Title 9, CCR, Section 9540(e)(2) requires the re-filing of amended financial reports when audits disclose errors in recording or reporting of revenues and/or expenses. Therefore, amended FSRs need to be filed for both FY 2003-04 and 2004-05.

**Management Action.** Probation Agency management stated: "Amendments to both FY 2003-04 and FY 2004-05 Financial Status Reports will be filed with the California State Department of Alcohol and Drug Programs (ADP) by November 30, 2006."

2. **Overstated Prop 36 Expenditures.** Expenditures charged by the District Attorney's Office (DAO) to the Prop 36 Program did not always constitute eligible charges and/or were not always supported with appropriate source documentation. As a result, DAO Prop 36 payroll expenditures of \$85,163 were overstated by \$61,086 for the period July 1, 2005 through February 28, 2006.
  - A. **Ineligible Salary Allocations.** Payroll expenditures totaling \$39,740 for the Prop 36 deputy district attorney did not comply with provisions of the County's FY 2005-06 Prop 36 Annual Plan. Specifically, the attorney fees charged to Prop 36 were not limited to those directly attributable to the prosecution of probation violation cases resulting from tighter protocols implemented by Behavioral Health. Further, DAO was unable to quantify and document attorney time by personnel activity as required by Title 9, CCR, Section 9530(f) and Office of Management and Budget Circular A-87. As a result, \$39,740 in attorney salary and benefits expenditures were not eligible for Prop 36 reimbursement.
  - B. **Unsupported Salary Allocations.** Payroll expenditures for the DAO paralegal and legal processing assistant were improperly charged to the Prop 36 Program at the budgeted allocation rate rather than the rate supported by employee time studies. As of December 31, 2005, \$41,110 in payroll expenditures for the paralegal and legal processing assistant had been charged to and reimbursed by Prop 36. Our review and analysis of employee time studies disclosed that only \$19,764 in payroll expenditures were attributable to processing of Prop 36 cases, resulting in an unsupported salary

allocation of \$21,346. Further, the time studies for the paralegal were prepared months subsequent to the closing of pay periods, which may call into question the accuracy and validity of the paralegal payroll charges.

**Management Action.** Probation Agency management stated: "After discussion with DAO fiscal staff, it was agreed that an adjustment would be reflected in the DAO's 4<sup>th</sup> quarter Prop 36 reimbursement requests for FY 2005-06. This adjustment, in the amount of \$61,086, was necessary to accurately reflect true salary and benefit costs to the Prop 36 Program by DAO staff."

3. **Miscellaneous Discrepancies and Issues.** Our audit also disclosed various miscellaneous discrepancies and issues, relating to Behavioral Health Prop 36 fiscal activity, that we disclose for your consideration and discretionary action. These items were deemed miscellaneous due to the dollar value and net impact on the reasonableness of the Prop 36 Trust Fund balance.
  - A. **\$780 Service Provider Underpayment.** The August 2005 general claim for Alternative Action did not apply proper contracted rates to units delivered in July 2005, resulting in a service provider underpayment of \$780. The underpayment was the result of contracted rates, approved by the Board of Supervisors in September 2005, not being applied retroactively.
  - B. **\$30 Service Provider Underpayment.** The October 2005 general claim, adjusted by Behavioral Health, for Santa Clara Valley Alcohol Services United omitted three (3) group counseling hours, resulting in a service provider underpayment of \$30.
  - C. **\$55 Service Provider Overpayment.** The July and August 2005 general claims for Santa Clara Valley Alcohol Services United paid for both day of admission and discharge for patient BT0508845, which was not allowed according to State ADP Bulletin 98-42. As a result, the service provider was overpaid \$55.
  - D. **\$101 Ineligible Prop 36 Expenditure.** Payroll expenditures totaling \$49,479 for two Health Care Agency (HCA) employees were improperly charged to Prop 36 during FY 2005-06. Subsequently, HCA transferred only \$49,378 of the ineligible payroll expenditures from Prop 36 to the appropriate organization, resulting in a net ineligible charge of \$101 to Prop 36.
  - E. **\$125 Unreimbursed Prop 36 Expenditure.** Revenue transfers from the Prop 36 Trust Fund to the General Fund did not cover \$125 in SACPA-related expenditures for FY 2005-06. As of February 28, 2006, a total of only \$1,843,297 had been transferred from the Prop 36 Trust Fund to the General Fund to cover SACPA-related expenditures totaling \$1,843,422.

**Management Action.** Probation Agency management stated: "After discussions with BH fiscal staff, Probation Agency management is in agreement with audit finding number 3. At present, Probation fiscal staff are working to ensure those miscellaneous discrepancies and issues, as noted in the finding, are addressed and corrective actions are taken."

**AUDITOR'S EVALUATION OF MANAGEMENT ACTION:** We believe that management actions taken or planned were responsive to the audit findings. Management planned to complete corrective actions by December 31, 2006.

We appreciate the cooperation and assistance extended to us by the management and staff of the Probation Agency, Health Care Agency, and District Attorney's Office during this audit.

