



Transmitted via e-mail

November 16, 2015

Jeffrey A. Beard, Ph.D., Secretary
California Department of Corrections
and Rehabilitation
P.O. Box 942883
Sacramento, CA 94283-0001

Dear Dr. Beard:

Final Report—California Department of Corrections and Rehabilitation, Combined Inmate Welfare Fund for the Fiscal Years Ended June 30, 2014 and June 30, 2013

The Department of Finance, Office of State Audits and Evaluations, has completed its financial audit of the California Department of Corrections and Rehabilitation's (CDCR) Inmate Welfare Fund (Fund) for the fiscal years ended June 30, 2014 and June 30, 2013.

CDCR's response to the report findings is incorporated into this final report. CDCR 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 Fund operations. This report will be placed on our website.

We appreciate the cooperation and assistance of CDCR staff during our audit. If you have any questions regarding this report, please contact Jon Chapple, Manager or Rebecca McAllister, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Mr. Scott Kernan, Undersecretary of Operations, California Department of Corrections and Rehabilitation
Mr. Kenneth Pogue, Undersecretary, Administration and Offender Services, California Department of Corrections and Rehabilitation
Mr. Kelly Harrington, Director, Division of Adult Institutions, California Department of Corrections and Rehabilitation
Ms. Alene Shimazu, Director, Division of Administrative Services, California Department of Corrections and Rehabilitation
Mr. Bryan Beyer, Director, Internal Oversight and Research, California Department of Corrections and Rehabilitation
Mr. Jason Lopez, Deputy Director, Fiscal Services, California Department of Corrections and Rehabilitation
Ms. Lori Zamora, Deputy Director, Office of Audits and Court Compliance, California Department of Corrections and Rehabilitation
Mr. Jaime Corvera, Associate Director, Accounting Services, California Department of Corrections and Rehabilitation
Ms. Linda Larabee, External Audits Manager, Office of Audits and Court Compliance, California Department of Corrections and Rehabilitation
Ms. Amy Casias, Accounting Administrator III, Accounting, Inmate Welfare Fund, California Department of Corrections and Rehabilitation
Ms. Michele Gomez-Essex, Accounting Administrator II, Accounting, Inmate Welfare Fund, California Department of Corrections and Rehabilitation

A F_{INANCIAL} S_{TATEMENT} A_{UDIT}

California Department of Corrections and Rehabilitation
Combined Inmate Welfare Fund
For the Fiscal Years Ended
June 30, 2014 and June 30, 2013

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

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This report is also available on our website at <http://www.dof.ca.gov>

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EXECUTIVE SUMMARY

The Department of Finance, Office of State Audits and Evaluations, performed this audit as required by sections 5005 and 5006 of the California Penal Code. The purpose was to audit the California Department of Corrections and Rehabilitation's (CDCR) Combined Balance Sheet and related Statement of Revenues, Expenses and Changes in Net Position of the Inmate Welfare Fund (Fund) for the fiscal years ended June 30, 2014 and 2013. The objectives of our audit were to:

- Express an opinion on the *Combined Balance Sheet* and *Combined Statement of Revenues, Expenses and Changes in Net Position* of the Inmate Welfare Fund for the fiscal years ended June 30, 2014 and 2013.
- Verify the financial statements were prepared on the basis of accounting prescribed by the California State Administrative Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America.
- Report on internal control and compliance weaknesses, and provide recommendations for improving controls over Fund operations.

Audit Results

- The *Combined Balance Sheet* and *Statement of Revenues, Expenses and Changes in Net Position* (statutory basis) are fairly stated and materially correct for the fiscal years ended June 30, 2014 and 2013.
- One material weakness and one significant deficiency were identified in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With Government Auditing Standards, which is included in this report.

We also noted certain matters that we reported to CDCR management in a separate letter dated October 27, 2015.

This report is intended solely for the information and use of CDCR, Fund management, and those charged with governance, and is not intended to be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



INDEPENDENT AUDITOR'S REPORT

Jeffrey A. Beard, Ph.D., Secretary
California Department of Corrections
and Rehabilitation
P.O. Box 942883
Sacramento, CA 94283-0001

We have audited the accompanying financial statements of the Inmate Welfare Fund (Fund), which comprise the Combined Balance Sheet (statutory basis) as of June 30, 2014 and 2013, and the related Combined Statement of Revenues, Expenses and Changes in Net Position (statutory basis) for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with a statutory basis of accounting described in Note 1C. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The Department of Finance (Finance) and the audited entity are both part of the State of California's Executive Branch. As required by various statutes within the California Government Code, Finance performs certain management and accounting functions. Under *Government Auditing Standards*, performance of these activities creates an organizational impairment with respect to independence. However, Finance has developed and implemented safeguards to mitigate the organizational impairment so reliance can be placed on the work performed.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the statutory-basis financial statements referred to above present fairly, in all material aspects, the statutory-basis financial position of the Fund as of June 30, 2014 and 2013, and the changes in financial position for the years then ended in conformity with the basis of accounting described in Note 1C.

Emphasis of Matter

As described in Note 1B, the financial statements were prepared on the basis of accounting prescribed by the California State Administrative Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of California Penal Code sections 5005 and 5006, and to present financial information for the Fund. Also as discussed in Note 1, the financial statements are not intended to present the financial position of the California Department of Corrections and Rehabilitation (CDCR) or the State of California as of June 30, 2014 and 2013, or the results of operations or changes in their financial position for the years then ended. Our opinion is not modified with respect to this matter.

Other Matters

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Fund taken as a whole. The *Schedules of Revenues and Expenses by Institution*, as identified in the table of contents, is presented for the purpose of additional analysis and are not a required part of the Fund's financial statements.

The *Schedules of Revenues and Expenses by Institution* are the responsibility of CDCR management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *Schedules of Revenues and Expenses by Institution* are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2015, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Restriction on Use

This report is intended solely for the information and use of CDCR, Fund management, and those charged with governance, and is not intended to be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Original signed by:

Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations

October 19, 2015

BALANCE SHEET - STATUTORY BASIS

**California Department of Corrections and Rehabilitation
Inmate Welfare Fund
Combined Balance Sheet—Statutory Basis
As of June 30, 2014 and June 30, 2013**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
ASSETS		
Cash and Pooled Investments	\$ 10,826,475	\$ 14,630,673
Accounts Receivable	26,045	14,184
Due from Other Funds or Appropriations	2,260,514	1,946,311
Canteen Merchandise for Resale	3,123,859	2,699,024
Capital Assets		
Equipment	52,357	43,578
Intangible Assets	975,000	1,050,000
Other – Prepaid Items	26,799	1,225
Total Assets	<u>\$ 17,291,049</u>	<u>\$ 20,384,995</u>
LIABILITIES AND NET POSITION		
Liabilities:		
Accounts Payable	\$ 396,081	\$ 672,547
Claims Filed	1,709,414	1,987,115
Due to Other Funds or Appropriations	135,761	1,432,507
Advanced Collections	24,837	35,505
Uncleared Collections	-	261
Total Liabilities	<u>2,266,093</u>	<u>4,127,935</u>
Net Position		
Net Investment in Capital Assets	1,027,357	1,093,578
Restricted – Deferred Payroll	1,361,014	1,091,102
Unrestricted	12,636,585	14,072,380
Total Net Position	<u>15,024,956</u>	<u>16,257,060</u>
Total Liabilities and Net Position	<u>\$ 17,291,049</u>	<u>\$ 20,384,995</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION—STATUTORY BASIS

California Department of Corrections and Rehabilitation Inmate Welfare Fund Combined Statement of Revenues, Expenses and Changes in Net Position—Statutory Basis For the Fiscal Years Ended June 30, 2014 and June 30, 2013

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Operating Activity		
Net Canteen Sales	\$ 51,657,766	\$ 50,017,709
Less: Cost of Goods Sold	30,995,305	29,993,427
Gross Margin from Canteen Sales	20,662,461	20,024,282
Less: Personal Services	15,334,815	14,281,026
Supplies & Equipment	402,584	211,062
Depreciation Expense	8,528	11,458
Amortization Expense	75,000	75,000
Inmate Pay	93,897	92,151
Total Canteen Expenses	15,914,824	14,670,697
Income (Loss) From Canteen Sales	4,747,637	5,353,585
Photo Project Revenue	575,288	534,678
Less: Photo Project Supplies	134,202	132,041
Inmate Pay	2,709	2,499
Income (Loss) From Photo Project	438,377	400,138
Handicraft Revenue	2,384	3,476
Less: Inmate Pay	1,174	1,731
Income (Loss) From Handicraft Project	1,210	1,745
Income (Loss) From Operating Activity	5,187,224	5,755,468
Non-Operating Activity		
Non-Operating Revenue:		
Interest on Investments	29,970	41,249
Special Purchase Surcharge	82,497	87,165
Misc. Non-Operating Revenue	129,213	182,965
Total Non-Operating Revenue	241,680	311,379

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION—STATUTORY BASIS (CONT'D)

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Non-Operating Expenses:		
Administrative Expense	2,002,459	1,825,094
Rent Expense	179,589	175,865
Audit Expense	320,328	473,775
Inmate Benefits:		
Visitor Program - Friends Outside	2,848,947	2,777,905
TV Services	181,574	175,355
Movie Rental	339,574	342,165
Education - GED Related	348,748	403,843
Telephone - Visitor Hotline	5,253	17,989
Library	60,091	78,074
Entertainment	7,856	6,664
Awards	73,210	69,501
Athletic Supplies	117,806	-
Visiting Room Supplies	150,194	-
	6,635,629	6,346,230
Income (Loss) from Non-Operating Activity	(6,393,949)	(6,034,851)
Current Year Net Income (Loss)	(1,206,725)	(279,383)
Prior Year Adjustments	(25,379)	(5,718)
Change in Net Position	\$ (1,232,104)	\$ (285,101)
Beginning Net Position	16,257,060	16,542,161 *
Ending Net Position	\$ 15,024,956	\$ 16,257,060

* Restated

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

California Department of Corrections and Rehabilitation Inmate Welfare Fund Notes to Financial Statements—Statutory Basis For the Fiscal Years Ended June 30, 2014 and 2013

Note 1 – Summary of Significant Accounting Policies

A. Reporting Entity

The Inmate Welfare Fund (Fund), administered by the California Department of Corrections and Rehabilitation (CDCR), was created by Chapter 102, Statutes of 1945. The CDCR Secretary administers the Fund through budgetary appropriations and oversight of the Fund's annual allocation to each of the correctional institutions located statewide. The warden of each correctional institution administers the institution's Fund operations.

CDCR maintains separate accountability for each institution's Fund operations. At June 30, 2014 and 2013, there were 35 and 34 institutions in operation, respectively. The CDCR's Fund and Trust Accounting Section, located in Sacramento, administers the Fund as a whole, maintains centralized institution Fund accounting records, and prepares the combined financial statements.

Section 5005 of the California Penal Code authorizes CDCR to establish and maintain prison canteens for sale of toilet articles, candy, notions, and other sundries to inmates. It also states that, "the sale prices of the articles offered for sale shall be fixed by the director at the amounts that will, as far as possible, render each canteen self-supporting."

The Fund's primary revenue-generating activity is canteen sales of food and non-food items to inmates. Through the operation of the canteens in all correctional institutions and other activities such as photo projects, the Fund provides benefits, education, and welfare for the inmates. Benefits include the purchase of publications, rental of movies, work opportunities, and other inmate programs.

B. Basis of Presentation

The Fund is classified as a Proprietary/Enterprise Fund under Generally Accepted Accounting Principles (GAAP) and Nongovernmental Trust and Agency Fund for State of California financial reporting purposes. Nongovernmental Trust and Agency Funds are used to account for resources received and disbursed by the state as a trustee or custodian.

The financial statements present information on the combined financial activities of the Fund with a supplemental schedule of revenues and expenses by institution. The financial statements do not represent all the financial activities of CDCR or of the individual institutions.

C. Measurement Focus and Basis of Accounting

The Fund financial statements are reported using the economic resources measurement focus and statutory basis of accounting. The statutory basis of accounting is prescribed or permitted by state laws and state accounting procedures as promulgated in the California State Administrative Manual, and is a basis of accounting other than GAAP as established by the Governmental Accounting Standards Board (GASB). The more significant variances from GAAP, as prescribed by GASB, are as follows:

Deferred Payroll – Government Code sections 12472.5 and 13302 deferred the June 2014 and 2013 payroll expenses to July 2014 and July 2013, respectively. For GASB purposes, payroll expenses are recognized in the period in which the government receives the employee services.

Compensated Absences – Vacation, annual, sick and other leave are expensed as personal services cost when used. Under GASB, unused leave balances are accrued when incurred in proprietary and fiduciary funds.

Prior Year Adjustments – Prior year adjustments include prior year revenue and expense adjustments for the differences between the amounts accrued as of June 30 and the actual amounts earned or expensed. For statutory reporting purposes, these adjustments are shown as an adjustment to net income. Under GASB, prior year adjustments, also known as prior period adjustments, are limited to the correction of errors and are treated as a direct change to the net position.

Statement Presentation – An unclassified balance sheet and no statement of cash flows are presented, whereas under GASB, a classified balance sheet and a statement of cash flows are required as part of the proprietary fund basic financial statements. Deferred payroll is classified as restricted in net position on the balance sheet, with no accompanying restricted assets. Under GASB, the restricted component of the net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Additionally, operating income is further captioned by operating activities on the statement of revenues, expenses, and changes in net position, whereas under GASB, this statement should only be distinguished between operating and nonoperating revenues and expenses.

Other variances from GAAP that did not impose significant impacts on the financial statements are disclosed in the sections noted below.

D. Cash and Pooled Investments

Cash consists of general cash, including remittances in transit, and cash in the state treasury. These amounts are used to meet the current needs of the Fund operations. Pooled Investments consist of cash in excess of current needs on deposit in the Surplus Money Investment Fund (SMIF). The Fund participates in the State of California's Pooled Money Investment Program, whereby cash on deposit in the state treasury determined to be in excess of immediate needs is transferred to the SMIF for investment purposes. All earnings from investments are apportioned to the contributing fund as provided in the Government Code. The participant's shares are valued on an amortized cost basis, which approximates fair value. Because the

difference between the amortized cost and fair value is not material, no adjustment has been made in the financial statements.

E. Due From Other Funds or Appropriations

Due From Other Funds or Appropriations mainly consists of the \$1,361,014 and \$1,091,102 due from the State Payroll Revolving Fund for payroll expenses paid at June 30, 2014 and 2013, respectively. Per Government Code sections 12472.5 and 13302, recognition of June payroll expenses are deferred until July.

F. Canteen Merchandise for Resale

Canteen Merchandise for Resale represents the value of canteen merchandise inventory available for resale to inmates. Canteen merchandise is maintained under a perpetual inventory system and is valued using the moving average cost method. Prompt-payment discounts, vendor rebates, and other adjustments are posted to cost of sales. This is a departure from GAAP, which requires discounts to be posted to inventory and inventories to be valued at cost or at current market value, whichever is less. The impact on the financial statements of these differences to inventory and cost of goods sold is immaterial.

G. Capital Assets

Capital assets are reported at historical cost, net of accumulated depreciation and amortization. Costs of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the balance sheet in the year of sale or retirement, and the resulting gain or loss is included in the operating statement. Repairs and maintenance are expensed as incurred. Capital Assets are depreciated as follows:

Equipment with costs of \$5,000 or over and with estimated useful lives of 12 months or more are capitalized and depreciated using the straight-line depreciation method throughout their useful lives, which vary from three to 12 years. Depreciation expenses are allocated to institutions based on the asset values being depreciated in that institution's expenses. Depreciation expenses relating to centralized accounting and administrative services are allocated based on cost of goods sold, as discussed in Note M, and reported under Administrative Expenses.

Intangible Assets include the Trust Restitution Accounting and Canteen System (TRACS) software and other costs incurred during the TRACS' application development stage, such as payroll and consultation fees. This software has an estimated useful life of 20 years and is amortized using the straight-line method over its useful life, commencing fiscal year 2007-08. Amortization expenses are allocated at a fixed rate to all institutions.

H. Accounts Payable and Claims Filed

Accounts Payable and Claims Filed accounts mainly consist of payments to vendors for canteen merchandise for resale and contractor services related to inmate benefits. The difference between the two accounts depends on the timing in the payment of the liabilities; Accounts Payable amounts include invoices received but not yet submitted to the State Controller's Office (SCO) for payment, while Claims Filed amounts have been submitted to SCO but have not been paid.

I. Due to Other Funds or Appropriations

Due to Other Funds or Appropriations mainly consists of transfers to the general fund for payroll costs and State Compensation Insurance Fund for workers' compensation insurance. During the fiscal year ending June 30, 2013, \$1,299,472 in payroll costs were payable to the general fund at year-end.

J. Operating and Nonoperating Revenue and Expenses

Operating revenues and expenses result from canteen, photo, and handicraft activities. Canteen sales are recognized at the point of sale, when funds are directly withdrawn from the inmates' trust accounts. For mini-canteens, money is collected in advance through the sale of yard ducats, which are redeemed for canteen merchandise. The sale is recognized at the time the yard ducats are redeemed at the main canteen. Photo sales are recognized at the time that photo tickets are sold.

Non-operating revenue consists of non-canteen related sales to inmates, special purchase surcharges, investment interest, and other miscellaneous revenue. Non-operating expenses consist of administrative costs and inmate benefit costs.

K. Compensated Absences

Compensated Absences are reported as operational expenses under canteen sales activities. Such costs incurred by the central office employees are expensed as administrative expenses under non-operating expenses.

L. Net Position

Net Position is categorized as net investment in capital assets, restricted, and unrestricted.

Net Investment in Capital Assets – This category groups all capital assets into one component. Accumulated depreciation and amortization reduce the balance in this category.

Restricted – This category contains only June 2014 and 2013 payroll expenses deferred to July 2014 and 2013, respectively, as imposed by Government Code sections 12472.5 and 13302.

Unrestricted – This category represents balances not reserved for any project or other purpose; however, Penal Code section 5006 restricts the use of the fund to providing benefits, education, and welfare to the inmates.

M. Allocated Expenses

Certain centralized accounting and administrative services, and inmate benefit expenses, are allocated to each institution in the Supplemental Schedules of Revenues and Expenses by Institution based on the following:

Centralized accounting and administrative are allocated based on each institution's proportional share of the total Fund's cost of goods sold.

Inmate benefits, which consist mainly of the visitor program costs, are allocated based on each institution's proportional share of the total statewide average inmate population.

The effect on the financial statements is to increase each institution's expenses and decrease each institution's net income; however, there is no effect on the combined Fund net income.

N. Use of Estimates

The preparation of financial statements in conformity with the statutory basis of accounting requires management to make estimates and assumptions that affect the amounts reported in the assets and liabilities and the disclosure of the contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – Restatement of Beginning Net Position

The Fund's beginning net position as of July 1, 2012 was decreased by \$2,546,717. The decrease is due to a change in the Fund's capitalization policy. Commencing in fiscal year 2012-13, the Fund's management approved the change in capitalization criteria from \$500 to \$5,000. Subsequently, any assets with historical costs under \$5,000 were expensed.

Note 3 – Cash and Pooled Investments

Cash and pooled investments consist of the following, as of June 30:

	2014	2013
Cash	\$ 92,475	\$ 855,673
Deposits in Surplus Money Investment Fund	10,734,000	13,775,000
Total Cash and Pooled Investments	\$ 10,826,475	\$ 14,630,673

For disclosures related to investment policy and related investment risk investment categories, see the State of California Comprehensive Annual Financial Report.

Note 4 – Capital Assets

Capital assets activity for the fiscal years ended June 30, 2014 and 2013 was as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
<u>Capital assets being depreciated/amortized</u>				
Equipment	\$ 465,510	\$ 20,527	\$ -	\$ 486,037
Intangible Assets	1,500,000	-	-	1,500,000
Total capital assets being depreciated/amortized	1,965,510	20,527	-	1,986,037
<u>Less accumulated depreciation/amortization for</u>				
Equipment	(421,932)	(11,748)	-	(433,680)
Intangible Assets	(450,000)	(75,000)	-	(525,000)
Total accumulated depreciation/amortization	(871,932)	(86,748)	-	(958,680)
Capital assets, net	\$ 1,093,578	\$ (66,221)	\$ -	\$ 1,027,357

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
<u>Capital assets being depreciated/amortized</u>				
Equipment	\$ 469,937 *	\$ 13,814	\$ (18,241)	\$ 465,510
Intangible Assets	1,500,000	-	-	1,500,000
Total capital assets being depreciated/amortized	1,969,937 *	13,814	(18,241)	1,965,510
<u>Less accumulated depreciation/amortization for</u>				
Equipment	(406,653) *	(15,279)	-	(421,932)
Intangible Assets	(375,000)	(75,000)	-	(450,000)
Total accumulated depreciation/amortization	(781,653) *	(90,279)	-	(871,932)
Capital assets, net	\$ 1,188,284 *	\$ (76,465)	\$ (18,241)	\$ 1,093,578

* Restated (See Note 2)

Depreciation and amortization expenses were \$86,748 and \$90,279 during the years ended June 30, 2014 and 2013, respectively. Included in these amounts are depreciation expenses relating to centralized accounting and administrative services (as referenced in Note 1G) of \$3,220 and \$3,821, which are reported under Administrative Expenses for the years ended June 30, 2014 and 2013, respectively.

SUPPLEMENTAL INFORMATION

California Department of Corrections and Rehabilitation, Inmate Welfare Fund
Supplemental Schedules of Revenues and Expenses by Institution
For the Fiscal Year Ended June 30, 2014

	ASP	CAC	CAL	CCC	CCI	CCWF	CEN	CHCF	CIM	CIW
Operating Activity										
Net Canteen Sales	\$ 2,002,609	\$ 237,807	\$ 1,734,319	\$ 1,825,302	\$ 1,814,126	\$ 2,238,723	\$ 1,460,666	\$ 243,127	\$ 1,562,809	\$ 1,170,816
Less: Cost of Goods Sold	1,206,579	142,294	1,051,069	1,082,820	1,080,664	1,306,370	872,762	144,607	949,724	705,822
Gross Margin from Canteen Sales	796,030	95,513	683,250	742,482	733,462	932,353	587,904	98,520	613,085	464,994
Less: Personal Services	687,465	59,269	503,872	598,348	461,050	487,374	494,413	199,834	457,792	239,131
Supplies and Equipment	35,400	12,817	7,397	22,717	9,671	6,490	4,890	8,016	7,276	3,491
Depreciation Expense	625	322	-	4,730	-	-	-	-	-	1,060
Amortization Expense	2,143	2,138	2,143	2,143	2,143	2,143	2,143	2,143	2,143	2,143
Inmate Pay	3,948	268	2,651	2,263	2,988	3,208	2,411	682	2,267	1,957
Total Canteen Expenses	729,581	74,814	516,063	630,201	475,852	499,215	503,857	210,675	469,478	247,782
Income (Loss) from Canteen Sales	66,449	20,699	167,187	112,281	257,610	433,138	84,047	(112,155)	143,607	217,212
Photo Project Revenue	26,488	-	33,997	9,154	13,498	19,106	14,083	1,254	10,523	14,867
Less: Photo Project Supplies	4,232	1,412	4,612	1,963	6,192	7,032	3,739	4,006	1,818	2,769
Inmate Pay	-	-	-	118	-	-	-	-	-	-
Income (Loss) from Photo Project	22,256	(1,412)	29,385	7,073	7,306	12,074	10,344	(2,752)	8,705	12,098
Handicraft Revenue	-	-	-	162	-	-	-	-	-	10
Less: Inmate Pay	-	-	-	-	-	-	-	-	-	-
Income (Loss) from Handicraft Project	-	-	-	162	-	-	-	-	-	10
Income (Loss) from Operating Activity	88,705	19,287	196,572	119,516	264,916	445,212	94,391	(114,907)	152,312	229,320
Non-Operating Activity										
Non-Operating Revenue:										
Interest on Investments	1,239	-	986	1,056	1,055	1,303	846	129	935	691
Special Purchases Surcharge	2,913	284	880	12,833	2,351	1,657	765	824	2,362	3,244
Miscellaneous Non-Operating Revenue	4,766	74	624	723	5,979	40,653	2,397	118	8,532	10,882
Total Non-Operating Revenue	8,918	358	2,490	14,612	9,385	43,613	4,008	1,071	11,829	14,817
Non-Operating Expenses:										
Administrative Expenses	79,459	9,143	67,804	69,818	69,819	84,484	56,351	9,305	61,080	45,571
Rent Expense	7,006	821	6,088	6,269	6,269	7,585	5,060	835	5,484	4,092
Audit Expenses	12,497	1,464	10,859	11,181	11,181	13,530	9,025	1,490	9,782	7,298
Inmate Benefits:										
Visitor Program - Friends Outside	101,051	53,442	80,164	106,885	102,743	77,603	67,337	38,345	104,948	45,782
TV Services	-	-	-	24,951	-	-	42,499	-	-	5,395
Movie Rental	10,795	-	10,900	10,910	11,100	10,000	10,750	5,040	10,025	3,960
Education Services	12,094	-	9,780	14,907	13,253	5,275	11,885	450	11,135	8,730
Telephone-Visitor Hotline	185	98	147	196	188	142	123	70	192	84
Library	2,539	-	-	4,444	4,275	2,945	-	-	1,200	-
Entertainment	-	-	-	-	-	1,045	220	689	-	-
Awards	2,455	125	3,030	1,390	2,285	1,405	1,109	977	4,501	-
Athletic Supplies	4,024	-	2,991	4,793	4,186	3,124	2,791	1,367	4,644	1,969
Visiting Room Supplies	4,052	-	6,397	-	3,751	3,618	6,316	2,913	4,362	4,400
Total Non-Operating Expenses	236,157	65,093	198,160	255,744	229,050	210,756	213,466	61,481	217,353	127,281
Income (Loss) from Non-Operating Activity	(227,239)	(64,735)	(195,670)	(241,132)	(219,665)	(167,143)	(209,458)	(60,410)	(205,524)	(112,464)
Current Year Net Income (Loss)	(138,534)	(45,448)	902	(121,616)	45,251	278,069	(115,067)	(175,317)	(53,212)	116,856
Prior Year Adjustment	464	2,843	14,217	22,486	174	2,735	(5,297)	(4,043)	1,925	4,569
Total Net Income (Loss)	\$ (138,070)	\$ (42,605)	\$ 15,119	\$ (99,130)	\$ 45,425	\$ 280,804	\$ (120,364)	\$ (179,360)	\$ (51,287)	\$ 121,425

California Department of Corrections and Rehabilitation, Inmate Welfare Fund
Supplemental Schedules of Revenues and Expenses by Institution
For the Fiscal Year Ended June 30, 2014

	CMC	CMF	COR	CRC	CTF	CVSP	DVI	FSP	HDSP	ISP
Operating Activity										
Net Canteen Sales	\$ 2,290,955	\$ 707,483	\$ 1,615,071	\$ 1,494,498	\$ 2,122,368	\$ 1,226,984	\$ 1,136,498	\$ 1,706,021	\$ 1,260,316	\$ 1,397,928
Less: Cost of Goods Sold	1,365,677	426,688	957,225	899,562	1,267,299	737,437	675,446	1,037,734	760,736	834,991
Gross Margin from Canteen Sales	925,278	280,795	657,846	594,936	855,069	489,547	461,052	668,287	499,580	562,937
Less: Personal Services	507,648	130,441	592,871	484,283	572,629	428,340	388,360	374,136	403,780	396,088
Supplies and Equipment	32,468	4,287	6,076	6,484	31,713	9,046	6,407	7,785	9,332	6,290
Depreciation Expense	-	-	-	-	-	-	1,791	-	-	-
Amortization Expense	2,143	2,143	2,143	2,143	2,143	2,143	2,143	2,143	2,143	2,143
Inmate Pay	8,276	2,060	3,338	3,202	4,236	1,549	2,074	3,439	1,906	1,871
Total Canteen Expenses	550,535	138,931	604,428	496,112	610,721	441,078	400,775	387,503	417,161	406,392
Income (Loss) from Canteen Sales	374,743	141,864	53,418	98,824	244,348	48,469	60,277	280,784	82,419	156,545
Photo Project Revenue	15,446	4,266	13,860	23,681	23,502	18,296	6,828	18,869	14,769	15,667
Less: Photo Project Supplies	5,567	2,722	3,202	4,524	7,452	4,083	818	5,867	3,003	3,739
Inmate Pay	252	-	279	-	360	-	-	-	621	-
Income (Loss) from Photo Project	9,627	1,544	10,379	19,157	15,690	14,213	6,010	13,002	11,145	11,928
Handicraft Revenue	-	-	-	-	192	-	-	134	-	-
Less: Inmate Pay	-	-	-	-	-	-	-	504	-	-
Income (Loss) from Handicraft Project	-	-	-	-	192	-	-	(370)	-	-
Income (Loss) from Operating Activity	384,370	143,408	63,797	117,981	260,230	62,682	66,287	293,416	93,564	168,473
Non-Operating Activity										
Non-Operating Revenue:										
Interest on Investments	1,367	421	916	908	1,258	744	662	993	695	826
Special Purchases Surcharge	4,789	1,041	950	963	3,522	720	292	1,951	1,992	1,035
Miscellaneous Non-Operating Revenue	9,659	450	574	1,860	9,134	499	445	624	441	541
Total Non-Operating Revenue	15,815	1,912	2,440	3,731	13,914	1,963	1,399	3,568	3,128	2,402
Non-Operating Expenses:										
Administrative Expenses	88,161	27,476	61,839	58,087	81,540	47,618	43,674	67,022	49,827	53,885
Rent Expense	7,916	2,467	5,552	5,215	7,321	4,275	3,921	6,018	4,399	4,838
Audit Expenses	14,119	4,400	9,903	9,302	13,059	7,626	6,994	10,734	7,846	8,630
Inmate Benefits:										
Visitor Program - Friends Outside	110,269	50,681	97,644	76,244	115,480	58,876	56,671	69,676	73,127	75,087
TV Services	18,377	-	-	1,278	720	-	-	-	612	36,737
Movie Rental	4,290	10,510	11,000	10,600	11,465	10,305	6,100	10,325	10,350	12,105
Education Services	16,956	-	10,904	7,950	14,126	10,695	5,963	11,671	12,411	11,701
Telephone-Visitor Hotline	202	93	179	140	212	108	104	128	134	138
Library	-	-	-	3,259	5,210	2,043	2,116	2,885	3,158	-
Entertainment	-	-	-	326	753	1,188	987	-	-	-
Awards	2,853	1,275	3,438	1,800	2,275	1,904	1,373	1,783	1,242	1,818
Athletic Supplies	4,934	2,191	4,116	3,617	4,792	2,975	2,501	2,554	2,291	3,366
Visiting Room Supplies	-	2,870	7,899	3,337	6,565	3,670	4,578	5,997	2,629	6,161
Total Non-Operating Expenses	268,077	101,963	212,474	181,155	263,518	151,283	134,982	188,793	168,026	214,466
Income (Loss) from Non-Operating Activity	(252,262)	(100,051)	(210,034)	(177,424)	(249,604)	(149,320)	(133,583)	(185,225)	(164,898)	(212,064)
Current Year Net Income (Loss)	132,108	43,357	(146,237)	(59,443)	10,626	(86,638)	(67,296)	108,191	(71,334)	(43,591)
Prior Year Adjustment	11,394	1,551	(2,400)	(13,979)	(386)	(844)	(693)	(4,071)	(3,095)	(71,309)
Total Net Income (Loss)	\$ 143,502	\$ 44,908	\$ (148,637)	\$ (73,422)	\$ 10,240	\$ (87,482)	\$ (67,989)	\$ 104,120	\$ (74,429)	\$ (114,900)

California Department of Corrections and Rehabilitation, Inmate Welfare Fund
 Supplemental Schedules of Revenues and Expenses by Institution
 For the Fiscal Year Ended June 30, 2014

	KVSP	LAC	MCSP	NKSP	PBSP	PVSP	RJD	SAC	SATF	SCC
Operating Activity										
Net Canteen Sales	\$ 1,381,088	\$ 1,561,632	\$ 1,325,394	\$ 1,545,383	\$ 932,462	\$ 1,282,998	\$ 1,337,989	\$ 828,790	\$ 2,165,999	\$ 1,827,939
Less: Cost of Goods Sold	823,645	939,789	798,013	923,311	557,819	777,812	806,329	502,133	1,297,677	1,112,089
Gross Margin from Canteen Sales	557,443	621,843	527,381	622,072	374,643	505,186	531,660	326,657	868,322	715,850
Less: Personal Services	560,767	431,583	450,808	432,823	408,894	382,425	428,453	335,340	776,947	346,166
Supplies and Equipment	13,585	13,115	4,842	12,418	5,770	11,892	5,381	8,883	32,337	7,226
Depreciation Expense	-	-	-	-	-	-	-	-	-	-
Amortization Expense	2,143	2,143	2,143	2,143	2,143	2,143	2,143	2,143	2,143	2,143
Inmate Pay	2,171	4,254	4,334	1,167	546	3,042	2,718	2,609	3,660	1,663
Total Canteen Expenses	578,666	451,095	462,127	448,551	417,353	399,502	438,695	348,975	815,087	357,198
Income (Loss) from Canteen Sales	(21,223)	170,748	65,254	173,521	(42,710)	105,684	92,965	(22,318)	53,235	358,652
Photo Project Revenue	20,700	25,063	19,339	5,595	11,236	23,546	13,362	12,269	34,346	16,660
Less: Photo Project Supplies	5,897	3,486	3,253	948	1,357	3,325	2,917	3,568	5,837	4,638
Inmate Pay	-	-	-	-	-	-	-	-	406	-
Income (Loss) from Photo Project	14,803	21,577	16,086	4,647	9,879	20,221	10,445	8,701	28,103	12,022
Handicraft Revenue	-	207	-	-	-	-	-	-	-	540
Less: Inmate Pay	-	-	-	-	-	-	-	-	-	-
Income (Loss) from Handicraft Project	-	207	-	-	-	-	-	-	-	540
Income (Loss) from Operating Activity	(6,420)	192,532	81,340	178,168	(32,831)	125,905	103,410	(13,617)	81,338	371,214
Non-Operating Activity										
Non-Operating Revenue:										
Interest on Investments	772	891	772	907	498	759	791	485	1,240	1,085
Special Purchases Surcharge	3,094	1,735	2,408	394	4,144	1,199	1,161	1,169	3,052	8,118
Miscellaneous Non-Operating Revenue	4,315	8,219	503	600	1,677	1,250	549	326	1,234	722
Total Non-Operating Revenue	8,181	10,845	3,683	1,901	6,319	3,208	2,501	1,980	5,526	9,925
Non-Operating Expenses:										
Administrative Expenses	53,273	60,565	51,546	59,616	35,990	50,178	51,727	32,354	83,903	71,660
Rent Expense	4,783	5,438	4,628	5,353	3,231	4,505	4,644	2,905	7,533	6,434
Audit Expenses	8,532	9,699	8,255	9,547	5,764	8,036	8,284	5,181	13,437	11,476
Inmate Benefits:										
Visitor Program - Friends Outside	82,101	83,281	65,556	105,682	63,930	79,228	73,773	49,434	123,318	107,664
TV Services	-	720	-	-	27,152	-	-	-	-	22,413
Movie Rental	10,035	10,720	11,595	10,390	9,565	10,775	9,500	8,530	10,995	9,639
Education Services	10,402	8,120	8,679	13,581	9,067	13,329	8,614	3,697	22,584	11,874
Telephone-Visitor Hotline	150	153	120	194	117	145	135	91	226	197
Library	3,045	3,984	2,916	1,062	-	3,331	-	-	-	4,328
Entertainment	-	451	1,038	-	-	-	-	-	-	631
Awards	2,833	1,884	1,612	3,392	858	2,959	2,864	1,894	4,092	3,069
Athletic Supplies	3,683	3,720	2,778	3,840	2,798	3,412	3,313	1,130	5,509	4,791
Visiting Room Supplies	8,066	8,495	5,996	1,198	2,932	5,738	7,619	4,765	7,933	2,170
Total Non-Operating Expenses	186,903	197,230	164,719	213,855	161,404	181,636	170,473	109,981	279,530	256,346
Income (Loss) from Non-Operating Activity	(178,722)	(186,385)	(161,036)	(211,954)	(155,085)	(178,428)	(167,972)	(108,001)	(274,004)	(246,421)
Current Year Net Income (Loss)	(185,142)	6,147	(79,696)	(33,786)	(187,916)	(52,523)	(64,562)	(121,618)	(192,666)	124,793
Prior Year Adjustment	(80)	21,893	(2,225)	(3,549)	(4,698)	3,799	(1,786)	(3,922)	(207)	2,431
Total Net Income (Loss)	\$ (185,222)	\$ 28,040	\$ (81,921)	\$ (37,335)	\$ (192,614)	\$ (48,724)	\$ (66,348)	\$ (125,540)	\$ (192,873)	\$ 127,224

California Department of Corrections and Rehabilitation, Inmate Welfare Fund
Supplemental Schedules of Revenues and Expenses by Institution
For the Fiscal Year Ended June 30, 2014

	SOL	SQ	SVSP	VSPW	WSP	Combined
Operating Activity						
Net Canteen Sales	\$ 2,046,361	\$ 1,773,635	\$ 1,175,420	\$ 1,340,941	\$ 1,883,309	\$ 51,657,766
Less: Cost of Goods Sold	1,245,488	1,086,121	700,456	787,358	1,131,759	30,995,305
Gross Margin from Canteen Sales	800,873	687,514	474,964	553,583	751,550	20,662,461
Less: Personal Services	525,698	516,847	442,441	397,805	430,694	15,334,815
Supplies and Equipment	4,815	11,144	11,435	5,133	16,555	402,584
Depreciation Expense	-	-	-	-	-	8,528
Amortization Expense	2,143	2,143	2,143	2,143	2,143	75,000
Inmate Pay	3,476	2,660	2,350	2,095	2,558	93,897
Total Canteen Expenses	536,132	532,794	458,369	407,176	451,950	15,914,824
Income (Loss) from Canteen Sales	264,741	154,720	16,595	146,407	299,600	4,747,637
Photo Project Revenue	27,625	23,203	9,527	32,397	2,266	575,288
Less: Photo Project Supplies	5,254	4,955	1,820	7,275	920	134,202
Inmate Pay	-	-	281	-	392	2,709
Income (Loss) from Photo Project	22,371	18,248	7,426	25,122	954	438,377
Handicraft Revenue	274	865	-	-	-	2,384
Less: Inmate Pay	-	670	-	-	-	1,174
Income (Loss) from Handicraft Project	274	195	-	-	-	1,210
Income (Loss) from Operating Activity	287,386	173,163	24,021	171,529	300,554	5,187,224
Non-Operating Activity						
Non-Operating Revenue:						
Interest on Investments	1,212	1,059	650	747	1,072	29,970
Special Purchases Surcharge	4,487	2,667	1,303	2,095	103	82,497
Miscellaneous Non-Operating Revenue	779	4,039	4,416	772	837	129,213
Total Non-Operating Revenue	6,478	7,765	6,369	3,614	2,012	241,680
Non-Operating Expenses:						
Administrative Expenses	80,534	70,109	45,231	50,854	72,956	2,002,459
Rent Expense	7,231	6,295	4,062	4,566	6,550	179,589
Audit Expenses	12,897	11,228	7,244	8,144	11,684	320,328
Inmate Benefits:						
Visitor Program - Friends Outside	89,249	98,668	77,314	71,145	116,549	2,848,947
TV Services	-	-	720	-	-	181,574
Movie Rental	11,555	12,030	10,585	10,900	12,230	339,574
Education Services	10,960	5,340	6,225	22,382	4,008	348,748
Telephone-Visitor Hotline	164	181	142	130	245	5,253
Library	1,257	3,624	-	2,470	-	60,091
Entertainment	-	-	528	-	-	7,856
Awards	1,145	2,419	1,862	2,809	2,480	73,210
Athletic Supplies	1,157	4,429	3,471	5,473	5,076	117,806
Visiting Room Supplies	-	6,425	3,982	1,000	4,360	150,194
Total Non-Operating Expenses	216,149	220,748	161,366	179,873	236,138	6,635,629
Income (Loss) from Non-Operating Activity	(209,671)	(212,983)	(154,997)	(176,259)	(234,126)	(6,393,949)
Current Year Net Income (Loss)	77,715	(39,820)	(130,976)	(4,730)	66,428	(1,206,725)
Prior Year Adjustment	1,184	949	1,726	2,442	423	(25,379)
Total Net Income (Loss)	\$ 78,899	\$ (38,871)	\$ (129,250)	\$ (2,288)	\$ 66,851	\$ (1,232,104)

Institution Name Legend

ASP	=	Avenal State Prison
CAC	=	California City Correctional Facility
CAL	=	Calipatria State Prison
CCC	=	California Correctional Center
CCI	=	California Correctional Institution
CCWF	=	Central California Women's Facility
CEN	=	Centinela State Prison
CHCF	=	California Health Care Facility
CIM	=	California Institution for Men
CIW	=	California Institution for Women
CMC	=	California Men's Colony
CMF	=	California Medical Facility
COR	=	Corcoran State Prison
CRC	=	California Rehabilitation Center
CTF	=	Correctional Training Facility
CVSP	=	Chuckawalla Valley State Prison
DVI	=	Deuel Vocational Institution
FSP	=	Folsom State Prison
HDSP	=	High Desert State Prison
ISP	=	Ironwood State Prison
KVSP	=	Kern Valley State Prison
LAC	=	California State Prison, Los Angeles Co
MCSPP	=	Mule Creek State Prison
NKSP	=	North Kern State Prison
PBSP	=	Pelican Bay State Prison
PVSP	=	Pleasant Valley State Prison
RJD	=	R.J. Donovan Correctional Facility
SAC	=	California State Prison, Sacramento
SATF	=	Substance Abuse Treatment Facility, Corcoran
SCC	=	Sierra Conservation Center
SOL	=	California State Prison, Solano
SQ	=	San Quentin State Prison
SVSP	=	Salinas Valley State Prison
VSPW	=	Valley State Prison for Women
WSP	=	Wasco State Prison

California Department of Corrections and Rehabilitation, Inmate Welfare Fund
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	ASP	CAL	CCC	CCI	CCWF	CEN	CHCF	CIM	CIW	CMC
Operating Activity										
Net Canteen Sales	\$ 2,295,491	\$ 1,591,670	\$ 1,710,419	\$ 1,711,854	\$ 2,054,093	\$ 1,771,701	\$ -	\$ 1,517,620	\$ 995,487	\$ 2,335,787
Less: Cost of Goods Sold	<u>1,379,802</u>	<u>961,987</u>	<u>1,024,580</u>	<u>1,020,176</u>	<u>1,192,274</u>	<u>1,056,569</u>	-	<u>922,950</u>	<u>593,000</u>	<u>1,387,774</u>
Gross Margin from Canteen Sales	915,689	629,683	685,839	691,678	861,819	715,132	-	594,670	402,487	948,013
Less: Personal Services	647,436	542,726	456,673	521,109	433,286	440,352	36,714	406,706	249,244	526,293
Supplies and Equipment	16,513	5,338	20,165	7,531	2,517	605	690	3,479	610	20,407
Depreciation Expense	625	-	1,020	898	-	-	-	674	1,959	-
Amortization Expense	2,273	2,273	2,273	2,273	2,273	2,273	-	2,273	2,273	2,273
Inmate Pay	<u>3,153</u>	<u>2,757</u>	<u>2,759</u>	<u>2,818</u>	<u>2,436</u>	<u>2,688</u>	-	<u>1,845</u>	<u>1,926</u>	<u>8,121</u>
Total Canteen Expenses	<u>670,000</u>	<u>553,094</u>	<u>482,890</u>	<u>534,629</u>	<u>440,512</u>	<u>445,918</u>	<u>37,404</u>	<u>414,977</u>	<u>256,012</u>	<u>557,094</u>
Income (Loss) from Canteen Sales	245,689	76,589	202,949	157,049	421,307	269,214	(37,404)	179,693	146,475	390,919
Photo Project Revenue	30,155	30,788	8,321	13,632	17,745	16,514	-	8,947	11,181	15,469
Less: Photo Project Supplies	4,517	5,474	8,847	1,172	2,740	3,103	-	2,583	2,396	14,241
Inmate Pay	-	-	118	-	-	-	-	-	-	199
Income (Loss) from Photo Project	25,638	25,314	(644)	12,460	15,005	13,411	-	6,364	8,785	1,029
Handicraft Revenue	-	24	246	-	-	-	-	-	1	-
Less: Inmate Pay	-	-	-	-	-	-	-	-	-	-
Income (Loss) from Handicraft Project	-	24	246	-	-	-	-	-	1	-
Income (Loss) from Operating Activity	271,327	101,927	202,551	169,509	436,312	282,625	(37,404)	186,057	155,261	391,948
Non-Operating Activity										
Non-Operating Revenue:										
Interest on Investments	1,953	1,277	1,417	1,406	1,513	1,545	-	1,287	773	1,933
Special Purchases Surcharge	2,569	1,283	14,153	3,256	1,903	1,087	-	2,422	3,281	6,147
Miscellaneous Non-Operating Revenue	<u>8,138</u>	<u>18,605</u>	<u>3,176</u>	<u>8,896</u>	<u>7,895</u>	<u>8,339</u>	-	<u>9,856</u>	<u>9,379</u>	<u>13,842</u>
Total Non-Operating Revenue	12,660	21,165	18,746	13,558	11,311	10,971	-	13,565	13,433	21,922
Non-Operating Expenses:										
Administrative Expenses	85,440	58,486	62,252	62,065	72,620	64,355	-	55,355	36,084	84,394
Rent Expenses	8,103	5,643	6,006	5,989	7,006	6,209	-	5,340	3,482	8,142
Audit Expenses	21,830	15,201	16,180	16,132	18,875	16,727	-	14,388	9,379	21,935
Inmate Benefits:										
Visitor Program - Friends Outside	110,815	84,959	104,417	102,812	65,603	79,130	-	111,688	36,742	118,919
TV Services	-	-	21,765	-	-	42,499	-	-	3,322	18,349
Movie Rental	11,330	11,660	10,900	11,880	9,110	10,730	-	10,600	6,210	2,860
Education Services	16,321	11,229	12,079	17,738	6,480	13,026	-	10,291	7,238	28,286
Telephone-Visitor Hotline	714	547	672	662	422	510	-	719	237	766
Library	1,948	1,115	-	4,865	2,937	-	-	-	-	5,522
Entertainment	-	-	-	-	989	-	-	-	-	259
Awards	<u>2,807</u>	<u>3,328</u>	<u>2,088</u>	<u>1,346</u>	<u>1,530</u>	<u>2,313</u>	-	<u>3,242</u>	-	<u>969</u>
Total Non-Operating Expenses	<u>259,308</u>	<u>192,168</u>	<u>236,359</u>	<u>223,489</u>	<u>185,572</u>	<u>235,499</u>	-	<u>211,623</u>	<u>102,694</u>	<u>290,401</u>
Income (Loss) from Non-Operating Activity	(246,648)	(171,003)	(217,613)	(209,931)	(174,261)	(224,528)	-	(198,058)	(89,261)	(268,479)
Current Year Net Income (Loss)	24,679	(69,076)	(15,062)	(40,422)	262,051	58,097	(37,404)	(12,001)	66,000	123,469
Prior Year Adjustment	<u>(4,664)</u>	<u>(9,444)</u>	<u>(8,401)</u>	<u>2,009</u>	<u>27,927</u>	<u>(6,601)</u>	-	<u>959</u>	<u>3,220</u>	<u>(10,645)</u>
Total Net Income (Loss)	<u>\$ 20,015</u>	<u>\$ (78,520)</u>	<u>\$ (23,463)</u>	<u>\$ (38,413)</u>	<u>\$ 289,978</u>	<u>\$ 51,496</u>	<u>\$ (37,404)</u>	<u>\$ (11,042)</u>	<u>\$ 69,220</u>	<u>\$ 112,824</u>

California Department of Corrections and Rehabilitation, Inmate Welfare Fund
Supplemental Schedules of Revenues and Expenses by Institution
For the Fiscal Year Ended June 30, 2013

	CMF	COR	CRC	CTF	CVSP	DVI	FSP	HDSP	ISP	KVSP
Operating Activity										
Net Canteen Sales	\$ 692,508	\$ 1,706,023	\$ 1,583,390	\$ 2,282,923	\$ 1,265,996	\$ 911,781	\$ 1,469,623	\$ 1,058,104	\$ 1,478,272	\$ 1,402,850
Less: Cost of Goods Sold	416,611	1,021,920	951,203	1,360,580	766,335	552,463	897,362	644,748	879,298	837,890
Gross Margin from Canteen Sales	275,897	684,103	632,187	922,343	499,661	359,318	572,261	413,356	598,974	564,960
Less: Personal Services	180,486	541,020	350,805	540,569	364,190	401,088	305,132	395,761	338,362	485,761
Supplies and Equipment	2,278	3,527	3,786	14,089	525	6,878	4,173	13,142	557	8,267
Depreciation Expense	-	1,348	-	-	-	1,791	337	-	-	1,123
Amortization Expense	2,273	2,273	2,273	2,273	2,273	2,264	2,273	2,273	2,273	2,273
Inmate Pay	1,766	3,524	3,205	5,259	1,693	2,321	3,118	1,759	1,751	2,634
Total Canteen Expenses	186,803	551,692	360,069	562,190	368,681	414,342	315,033	412,935	342,943	500,058
Income (Loss) from Canteen Sales	89,094	132,411	272,118	360,153	130,980	(55,024)	257,228	421	256,031	64,902
Photo Project Revenue	2,582	12,676	22,208	28,272	20,246	6,452	21,119	12,429	16,870	27,282
Less: Photo Project Supplies	1,592	2,266	7,573	3,118	3,526	2,309	4,151	1,990	2,548	3,160
Inmate Pay	-	225	-	725	-	-	-	287	-	-
Income (Loss) from Photo Project	990	10,185	14,635	24,429	16,720	4,143	16,968	10,152	14,322	24,122
Handicraft Revenue	-	-	-	41	4	595	187	-	-	-
Less: Inmate Pay	-	-	-	-	-	332	618	-	-	-
Income (Loss) from Handicraft Project	-	-	-	41	4	263	(431)	-	-	-
Income (Loss) from Operating Activity	90,084	142,596	286,753	384,623	147,704	(50,618)	273,765	10,573	270,353	89,024
Non-Operating Activity										
Non-Operating Revenue:										
Interest on Investments	578	1,460	1,310	1,902	1,062	770	1,233	781	1,212	1,180
Special Purchases Surcharge	1,240	1,593	1,057	3,551	567	737	902	3,341	821	3,352
Miscellaneous Non-Operating Revenue	1,024	2,449	1,690	19,413	1,841	1,202	1,321	1,777	2,322	5,347
Total Non-Operating Revenue	2,842	5,502	4,057	24,866	3,470	2,709	3,456	5,899	4,355	9,879
Non-Operating Expenses:										
Administrative Expenses	25,320	62,202	57,827	82,482	46,364	33,643	54,572	39,981	53,414	51,042
Rent Expenses	2,443	6,001	5,579	7,958	4,473	3,246	5,265	3,775	5,154	4,925
Audit Expenses	6,581	16,167	15,030	21,438	12,051	8,744	14,184	10,171	13,883	13,267
Inmate Benefits:										
Visitor Program - Friends Outside	53,031	95,480	81,100	125,134	59,449	62,861	67,370	80,877	78,013	89,143
TV Services	-	-	1,134	618	1,260	-	-	612	38,990	-
Movie Rental	10,400	11,600	10,905	13,190	10,600	9,100	10,620	10,600	12,000	9,920
Education Services	-	16,764	10,738	16,669	9,814	7,734	13,808	7,340	11,400	11,660
Telephone-Visitor Hotline	342	615	522	806	383	405	434	521	502	574
Library	2,583	-	-	5,427	3,389	3,090	3,110	3,928	3,841	4,343
Entertainment	-	-	-	751	1,051	1,375	-	-	-	-
Awards	1,426	2,566	2,289	3,468	1,213	1,358	1,593	150	2,088	3,382
Total Non-Operating Expenses	102,126	211,395	185,124	277,941	150,047	131,556	170,956	157,955	219,285	188,256
Income (Loss) from Non-Operating Activity	(99,284)	(205,893)	(181,067)	(253,075)	(146,577)	(128,847)	(167,500)	(152,056)	(214,930)	(178,377)
Current Year Net Income (Loss)	(9,200)	(63,297)	105,686	131,548	1,127	(179,465)	106,265	(141,483)	55,423	(89,353)
Prior Year Adjustment	(1,896)	(5,690)	(2,009)	(6,663)	(764)	2,987	(5,107)	19,405	(9,730)	959
Total Net Income (Loss)	\$ (11,096)	\$ (68,987)	\$ 103,677	\$ 124,885	\$ 363	\$ (176,478)	\$ 101,158	\$ (122,078)	\$ 45,693	\$ (88,394)

California Department of Corrections and Rehabilitation, Inmate Welfare Fund
Supplemental Schedules of Revenues and Expenses by Institution
For the Fiscal Year Ended June 30, 2013

	LAC	MCSP	NKSP	PBSP	PVSP	RJD	SAC	SATF	SCC	SOL
Operating Activity										
Net Canteen Sales	\$ 1,541,334	\$ 1,392,058	\$ 1,405,633	\$ 1,047,314	\$ 1,388,781	\$ 1,408,900	\$ 930,445	\$ 1,978,085	\$ 1,697,313	\$ 1,936,242
Less: Cost of Goods Sold	921,943	837,954	834,363	628,821	847,610	853,117	561,852	1,183,270	1,017,848	1,176,415
Gross Margin from Canteen Sales	619,391	554,104	571,270	418,493	541,171	555,783	368,593	794,815	679,465	759,827
Less: Personal Services	481,172	468,145	371,436	408,930	388,847	399,607	370,775	629,214	465,637	543,763
Supplies and Equipment	12,145	1,624	4,995	2,249	9,130	1,172	5,956	18,926	2,420	675
Depreciation Expense	-	674	-	-	-	-	-	-	-	-
Amortization Expense	2,273	2,273	2,273	2,273	2,273	2,273	2,273	2,273	2,273	2,273
Inmate Pay	3,651	5,364	1,016	867	2,992	3,668	2,303	3,339	1,795	3,174
Total Canteen Expenses	499,241	478,080	379,720	414,319	403,242	406,720	381,307	653,752	472,125	549,885
Income (Loss) from Canteen Sales	120,150	76,024	191,550	4,174	137,929	149,063	(12,714)	141,063	207,340	209,942
Photo Project Revenue	14,875	18,114	8,002	9,230	19,768	15,510	12,214	25,590	12,570	26,511
Less: Photo Project Supplies	9,358	1,192	592	5,870	2,266	6,745	524	6,193	11,420	2,126
Inmate Pay	-	-	-	-	-	-	-	273	-	-
Income (Loss) from Photo Project	5,517	16,922	7,410	3,360	17,502	8,765	11,690	19,124	1,150	24,385
Handicraft Revenue	315	-	-	-	-	-	-	-	585	371
Less: Inmate Pay	-	-	-	-	-	-	-	-	-	-
Income (Loss) from Handicraft Project	315	-	-	-	-	-	-	-	585	371
Income (Loss) from Operating Activity	125,982	92,946	198,960	7,534	155,431	157,828	(1,024)	160,187	209,075	234,698
Non-Operating Activity										
Non-Operating Revenue:										
Interest on Investments	1,308	1,201	1,115	910	1,217	1,175	800	1,625	1,354	1,580
Special Purchases Surcharge	1,951	1,800	168	3,928	2,407	1,286	1,490	3,074	8,023	3,642
Miscellaneous Non-Operating Revenue	12,584	2,910	1,867	4,397	2,549	2,776	1,204	4,519	2,513	3,973
Total Non-Operating Revenue	15,843	5,911	3,150	9,235	6,173	5,237	3,494	9,218	11,890	9,195
Non-Operating Expenses:										
Administrative Expenses	55,947	50,974	50,773	38,219	51,514	51,782	34,102	72,001	61,855	71,448
Rent Expenses	5,398	4,918	4,899	3,688	4,970	4,996	3,290	6,946	5,968	6,893
Audit Expenses	14,541	13,249	13,197	9,934	13,389	13,459	8,864	18,714	16,077	18,571
Inmate Benefits:										
Visitor Program - Friends Outside	80,958	67,472	97,146	64,060	82,197	79,841	57,134	121,437	100,477	93,755
TV Services	594	-	-	24,450	-	-	-	-	21,186	-
Movie Rental	10,420	12,200	11,215	10,120	11,140	9,280	8,400	13,190	9,800	10,450
Education Services	5,617	14,930	17,716	9,636	12,909	12,626	4,295	31,236	11,006	8,407
Telephone-Visitor Hotline	521	435	626	413	529	514	368	782	647	603
Library	3,985	3,313	-	-	3,182	-	-	4,800	4,772	2,935
Entertainment	-	1,026	-	-	-	-	647	-	-	-
Awards	3,246	1,822	513	-	3,418	3,269	1,588	3,277	3,746	1,953
Total Non-Operating Expenses	181,227	170,339	196,085	160,520	183,248	175,767	118,688	272,383	235,534	215,015
Income (Loss) from Non-Operating Activity	(165,384)	(164,428)	(192,935)	(151,285)	(177,075)	(170,530)	(115,194)	(263,165)	(223,644)	(205,820)
Current Year Net Income (Loss)	(39,402)	(71,482)	6,025	(143,751)	(21,644)	(12,702)	(116,218)	(102,978)	(14,569)	28,878
Prior Year Adjustment	6	(7,786)	(4,300)	(2,358)	(11,503)	58,337	(3,486)	(4,512)	(3,951)	(4,384)
Total Net Income (Loss)	\$ (39,396)	\$ (79,268)	\$ 1,725	\$ (146,109)	\$ (33,147)	\$ 45,635	\$ (119,704)	\$ (107,490)	\$ (18,520)	\$ 24,494

California Department of Corrections and Rehabilitation, Inmate Welfare Fund
Supplemental Schedules of Revenues and Expenses by Institution
For the Fiscal Year Ended June 30, 2013

	SQ	SVSP	VSPW	WSP	Combined
Operating Activity					
Net Canteen Sales	\$ 1,669,799	\$ 1,115,509	\$ 962,612	\$ 1,708,092	\$ 50,017,709
Less: Cost of Goods Sold	<u>1,020,908</u>	<u>660,197</u>	<u>562,880</u>	<u>1,018,727</u>	<u>29,993,427</u>
Gross Margin from Canteen Sales	648,891	455,312	399,732	689,365	20,024,282
Less: Personal Services	553,458	392,981	277,841	365,507	14,281,026
Supplies and Equipment	4,234	574	2,722	9,163	211,062
Depreciation Expense	-	897	112	-	11,458
Amortization Expense	2,273	2,273	2,273	2,273	75,000
Inmate Pay	<u>3,134</u>	<u>1,919</u>	<u>1,235</u>	<u>2,161</u>	<u>92,151</u>
Total Canteen Expenses	<u>563,099</u>	<u>398,644</u>	<u>284,183</u>	<u>379,104</u>	<u>14,670,697</u>
Income (Loss) from Canteen Sales	85,792	56,668	115,549	310,261	5,353,585
Photo Project Revenue	20,905	10,426	13,871	4,204	534,678
Less: Photo Project Supplies	4,189	3,437	-	823	132,041
Inmate Pay	<u>234</u>	<u>232</u>	<u>-</u>	<u>206</u>	<u>2,499</u>
Income (Loss) from Photo Project	16,482	6,757	13,871	3,175	400,138
Handicraft Revenue	1,107	-	-	-	3,476
Less: Inmate Pay	<u>781</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,731</u>
Income (Loss) from Handicraft Project	326	-	-	-	1,745
Income (Loss) from Operating Activity	102,600	63,425	129,420	313,436	5,755,468
Non-Operating Activity					
Non-Operating Revenue:					
Interest on Investments	1,362	857	774	1,379	41,249
Special Purchases Surcharge	2,505	2,060	1,204	365	87,165
Miscellaneous Non-Operating Revenue	<u>8,940</u>	<u>2,230</u>	<u>2,755</u>	<u>3,236</u>	<u>182,965</u>
Total Non-Operating Revenue	12,807	5,147	4,733	4,980	311,379
Non-Operating Expenses:					
Administrative Expenses	62,169	40,181	34,201	62,030	1,825,094
Rent Expenses	5,999	3,877	3,300	5,984	175,865
Audit Expenses	16,160	10,445	8,889	16,123	473,775
Inmate Benefits:					
Visitor Program - Friends Outside	84,777	76,815	57,743	106,550	2,777,905
TV Services	-	576	-	-	175,355
Movie Rental	12,145	10,500	8,500	10,590	342,165
Education Services	3,936	6,362	27,140	9,412	403,843
Telephone-Visitor Hotline	545	495	372	786	17,989
Library	1,542	-	2,797	4,650	78,074
Entertainment	-	523	-	43	6,664
Awards	<u>2,185</u>	<u>2,176</u>	<u>2,619</u>	<u>2,533</u>	<u>69,501</u>
Total Non-Operating Expenses	<u>189,458</u>	<u>151,950</u>	<u>145,561</u>	<u>218,701</u>	<u>6,346,230</u>
Income (Loss) from Non-Operating Activity	(176,651)	(146,803)	(140,828)	(213,721)	(6,034,851)
Current Year Net Income (Loss)	(74,051)	(83,378)	(11,408)	99,715	(279,383)
Prior Year Adjustment	<u>3,508</u>	<u>(183)</u>	<u>(5,523)</u>	<u>(5,435)</u>	<u>(5,718)</u>
Total Net Income (Loss)	<u>\$ (70,543)</u>	<u>\$ (83,561)</u>	<u>\$ (16,931)</u>	<u>\$ 94,280</u>	<u>\$ (285,101)</u>

Institution Name Legend

ASP	=	Avenal State Prison
CAL	=	Calipatria State Prison
CCC	=	California Correctional Center
CCI	=	California Correctional Institution
CCWF	=	Central California Women's Facility
CEN	=	Centinela State Prison
CHCF	=	California Health Care Facility
CIM	=	California Institution for Men
CIW	=	California Institution for Women
CMC	=	California Men's Colony
CMF	=	California Medical Facility
COR	=	Corcoran State Prison
CRC	=	California Rehabilitation Center
CTF	=	Correctional Training Facility
CVSP	=	Chuckawalla Valley State Prison
DVI	=	Deuel Vocational Institution
FSP	=	Folsom State Prison
HDSP	=	High Desert State Prison
ISP	=	Ironwood State Prison
KVSP	=	Kern Valley State Prison
LAC	=	California State Prison, Los Angeles Co
M CSP	=	Mule Creek State Prison
NKSP	=	North Kern State Prison
PBSP	=	Pelican Bay State Prison
PVSP	=	Pleasant Valley State Prison
RJD	=	R.J. Donovan Correctional Facility
SAC	=	California State Prison, Sacramento
SATF	=	Substance Abuse Treatment Facility, Corcoran
SCC	=	Sierra Conservation Center
SOL	=	California State Prison, Solano
SQ	=	San Quentin State Prison
SVSP	=	Salinas Valley State Prison
VSPW	=	Valley State Prison for Women
WSP	=	Wasco State Prison



INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Jeffrey A. Beard, Ph.D., Secretary
California Department of Corrections and Rehabilitation
P.O. Box 942883
Sacramento, CA 94283-0001

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the California Department of Corrections and Rehabilitation's (CDCR) Inmate Welfare Fund (Fund) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Fund's financial statements, and have issued our report thereon dated October 19, 2015.

The Department of Finance (Finance) and the audited entity are both part of the State of California's Executive Branch. As required by various statutes within the California Government Code, Finance performs certain management and accounting functions. Under *Government Auditing Standards*, performance of these activities creates an organizational impairment with respect to independence. However, Finance has developed and implemented safeguards to mitigate the organizational impairment so reliance can be placed on the work performed.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below to be a material weakness:

Finding 2014-01

Condition: The Fund does not have a current accounting policy manual containing operating policies and procedures. Because the manual has not been updated in approximately 40 years, we consider this a material weakness.

Criteria: SAM section 7150 states that proprietary funds require complete special manuals of accounting instructions that should be prepared by the departments, based upon principles prepared by or approved by the Fiscal Systems and Consulting Unit (FSCU) within the Department of Finance. The manual should be sent to FSCU for general review before being placed into effect.

Cause: Management has not updated the manual since 1976. Significant changes in the Fund's accounting function have occurred during this time, including the implementation of a new accounting information system in fiscal year 2008-09.

Effect: The lack of a current accounting policy manual results in inconsistent and inaccurate accounting transactions and significantly impairs management's ability to produce reliable and accurate financial information.

Recommendation: Develop an accounting policy manual which reflects current accounting policies and procedures. Ensure the manual is reviewed periodically and revised as necessary to reflect the most current operating practices.

Response: See attached letter.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described below to be a significant deficiency.

Finding 2014-02

Condition: The Fund had a significant number of reconciling bank items at the fiscal year-ends, with many of the unreconciled items more than five years old.

Criteria: SAM section 7901 requires departments to reconcile the account balances prior to the year-end to supporting documentation such as invoices, receipts, etc. to ensure the accuracy and completeness of transactions posted to the departmental accounts. Corrections to errors should be made before financial reports are prepared to ensure the accuracy of a department's financial reports.

SAM section 20050 and Government Code section 13403 state the elements of a satisfactory system of internal accounting and administrative controls shall include

- (a) a system of authorization and record keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues and expenditures, and
- (b) an effective system of internal review.

Cause: In fiscal year 2008-09, CDCR implemented a new accounting system which resulted in numerous reconciling items due to system incompatibility. While current period reconciling items are being addressed, older reconciling items are addressed as time permits.

Effect: Not resolving reconciling items in a timely manner increases the risk of material misstatement to cash account balances on the financial statements.

Recommendation: Resolve the outstanding reconciling items in a timely manner.

Response: See attached letter.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Finding

CDCR's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Original signed by:

Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations

October 19, 2015

OFFICE OF THE SECRETARY

P.O. Box 942883
Sacramento, CA 94283-0001



November 03, 2015

Richard R. Sierra, CPA
Department of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814

Dear Mr. Sierra:

This letter is in response to the Draft Audit Report for the California Department of Corrections and Rehabilitation's (CDCR) Inmate Welfare Fund (IWF) for the fiscal years ended June 30, 2014 and June 30, 2013. We are responsible for assuring that our Department's financial reports conform to legal and regulatory requirements and the State Administrative Manual. The State Controller's Office relies upon State Department/Agency financial reports as well as its own records to prepare the financial statements of the State. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, and designing and implementing programs and controls to prevent and detect fraud.

We are in agreement with the one material weakness and one significant deficiency identified in the Independent Auditor's Report. We have made great strides in ensuring our financial statements have no significant misstatements and that they are accurate, reconciled and supported, and that they present fairly in all material aspects, the statutory basis of the IWF.

The Department is constantly evaluating its operations to ensure strong internal controls and the elimination of any weaknesses. The Draft Audit Report recommends the development of policies and procedures that ensure the active, ongoing oversight and monitoring of fiscal internal controls. This includes reconciling all old items on the bank statements as well as a complete update of the accounting policy manual. Through the corrective action plan, CDCR will report on the new strengthened policies and procedures designed to address these findings. These operational enhancements will be achieved by repurposing existing resources.

Given the procedural enhancements already in place, as well as those scheduled for implementation in the near future, we are confident that the fiscal years ending June 30, 2016 and June 30, 2015, will reflect statements with no material weaknesses or significant deficiencies in internal controls.

Richard R. Sierra, CPA
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The Department recognizes the tremendous efforts involved in auditing these fiscal years and appreciates the collaborative approach applied by your staff. If you have any questions regarding this response, please contact Jaime Corvera, Associate Director, Accounting Services Branch, at (916) 255-5730.

Sincerely,

Original signed by:

ALENE SHIMAZU
Director
Division of Administrative Services

cc: Jeffrey A. Beard, Ph.D., Secretary
Kenneth Pogue, Undersecretary, Administration and Offender Services
Jaime Corvera, Associate Director, Accounting Services Branch