DEPARTMENT OF FINANCE
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Transmitted via e-mail

March 24, 2016

Mr. Scott Kernan, Secretary
California Department of Corrections and Rehabilitation
P.O. Box 942833
Sacramento, CA 94283-0001

Dear Mr. Kernan:

Final Report—California Department of Corrections and Rehabilitation, Achievement of "The Future of California Corrections" Blueprint—Fiscal Benchmark

In accordance with Penal Code section 5032, the Department of Finance (Finance), Office of State Audits and Evaluations, has completed its audit of the California Department of Corrections and Rehabilitation's (CDCR) achievement of the fiscal benchmark established in the CDCR "The Future of California Corrections—A Blueprint to Save Billions of Dollars, End Federal Court Oversight, and Improve the Prison System" (Blueprint), for the period July 1, 2014 through June 30, 2015.

The enclosed report is for your information and use. CDCR's response to the report results and our evaluation of the response are incorporated into this final report. This report will be placed on our website.

We appreciate the assistance and cooperation of CDCR. If you have any questions regarding this report, please contact Kimberly Tarvin, Manager, or Alma Ramirez, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Cheryl L. McCormick, CPA
Assistant Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Kenneth J. Pogue, Undersecretary, Administration and Offender Services, California Department of Corrections and Rehabilitation
Ms. Diana Toche, Undersecretary, Health Care 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. Julie Lee, Director of Operations, Office of the Governor
Ms. Diane F. Boyer-Vine, Legislative Counsel, Office of Legislative Counsel
Mr. Daniel Alvarez, Secretary of the Senate, Office of the Secretary of the Senate
Mr. E. Dotson Wilson, Chief Clerk, Office of the Chief Clerk, California State Assembly
Ms. Amy Leach, Journal Clerk, Office of the Chief Clerk, California State Assembly

Audit Report

California Department of Corrections and Rehabilitation Achievement of "The Future of California Corrections" Blueprint–Fiscal Benchmark

July 1, 2014 through June 30, 2015


San Quentin State Prison

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

165225008

February 2016

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Final reports are available on our website at http://www.dof.ca.gov

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EXECUTIVE SUMMARY

On April 23, 2012, the California Department of Corrections and Rehabilitation (CDCR) released its plan to reduce prison spending titled "The Future of California Corrections–A Blueprint to Save Billions of Dollars, End Federal Court Oversight, and Improve the Prison System" (Blueprint).[1] In accordance with Penal Code section 5032, the Department of Finance (Finance) evaluated CDCR's achievement of the fiscal year 2014-15 Blueprint fiscal benchmark.

Our audit objectives were as follows:

- Assess the impact of CDCR's operating environment on the Blueprint fiscal benchmark.
- Determine whether CDCR achieved $1.5 billion in operational savings during fiscal year 2014-15.

Our evaluation was limited to the operational areas/programs specified in the Blueprint. Other areas/programs within CDCR not mentioned in the Blueprint were not evaluated, nor was a department-wide analysis of operations in comparison to budget authority performed.

Results

The $1.5 billion 2014-15 Blueprint benchmark was not attainable. Major external events continued to impact CDCR's operating environment resulting in operating conditions fundamentally different from those presumed in the Blueprint.

Of the $1.5 billion Blueprint benchmark, the following significant goals remained relevant for CDCR:

- $417.2 million net expenditure reduction and augmentation goals for DRP and DAPO.[2]
- Position reduction goals for Headquarters, DCHCS Administration, BPH, DAI Headquarters, DAI Office of Correctional Safety, and DAPO Headquarters; and position augmentation goal for DRP.[2]

CDCR fell short of achieving the $417.2 million Blueprint spending reduction goals for DRP and DAPO by $31.2 million[3] (8 percent). However, the 2014-15 position reduction goals were achieved for Headquarters, DCHCS Administration, BPH, DAI Headquarters, DAI Office of Correctional Safety, and DAPO Headquarters. Although DRP made some progress toward filling its positions, 173 net positions remained vacant at year end.

1 Blueprint is located on CDCR's website–www.cdcr.ca.gov.
2 See Results section for definition of acronyms.
3 Expenditures were measured and reported in accordance with generally accepted accounting principles modified accrual basis of accounting, which excludes encumbrances.

BACKGROUND, SCOPE, METHODOLOGY AND ASSUMPTIONS

BACKGROUND

The California Department of Corrections and Rehabilitation's (CDCR) mission is to enhance public safety through safe and secure incarceration of offenders, effective parole supervision, and rehabilitative strategies to successfully reintegrate offenders into our communities.[1]

Landmark prison realignment legislation to ease prison crowding and reduce CDCR's budget by 18 percent was enacted in April 2011 by Assembly Bill 109, the Public Safety Realignment Act (Realignment). Effective October 1, 2011, Realignment created and funded a community-based correctional program where lower-level offenders serve their sentences locally, and lower-level offenders released from state prison are supervised by local probation officers instead of state parole agents. Offenders who have been convicted of violent, sex-related, or other serious offenses continue to serve their sentences in state prison and are supervised by state parole agents after their release. As a result, six months into Realignment, the state offender population had dropped by approximately 22,000 inmates and 16,000 parolees. Therefore, it was necessary to realign CDCR's operations and budget to reflect its new policy changes, and lower inmate and parolee population levels.[2]

On April 23, 2012, CDCR released its plan to reduce prison spending titled "The Future of California Corrections-A Blueprint to Save Billions of Dollars, End Federal Court Oversight, and Improve the Prison System" (Blueprint). The Blueprint builds upon the changes brought by Realignment, and delineates a plan for CDCR to save billions of dollars through targeted General Fund spending reductions of approximately $1 billion in fiscal year 2012-13, and gradually increasing to $1.5 billion by 2015-16. Included in the Blueprint are position, inmate, and parolee population reductions which contribute to the savings. The Blueprint benchmarks were designed with an inmate population of 145 percent of 34[3] state institutions' design capacity.[4]

2014-15 Blueprint Benchmark Components

The 2014-15 Blueprint fiscal benchmark of $1.5 billion requires CDCR to achieve spending reductions in the following seven operational areas:

- Headquarters (HQ)/Division of Correctional Health Care Services (DCHCS) Administration[5]
- Division of Adult Institutions (DAI)

[1] www.cdcr.ca.gov.
[2] The Future of California Corrections-A Blueprint to Save Billions of Dollars, End Federal Court Oversight, and improve the Prison System.
[3] The California Health Care Facility, Stockton, which opened subsequent to the Blueprint development, was included in the Blueprint's 145 percent design capacity assumption.
[4] Blueprint is located on CDCR's website–www.cdcr.ca.gov.
[5] DCHCS Administration refers to program administration for Mental and Dental Health Services and does not include the Receiver's Office of California Correctional Health Care Services.

- DCHCS
- Division of Rehabilitative Programs (DRP)
- Board of Parole Hearings (BPH)
- Local Assistance (LA)
- Division of Adult Parole Operations (DAPO)

Key factors in achieving the $1.5 billion fiscal benchmark include:

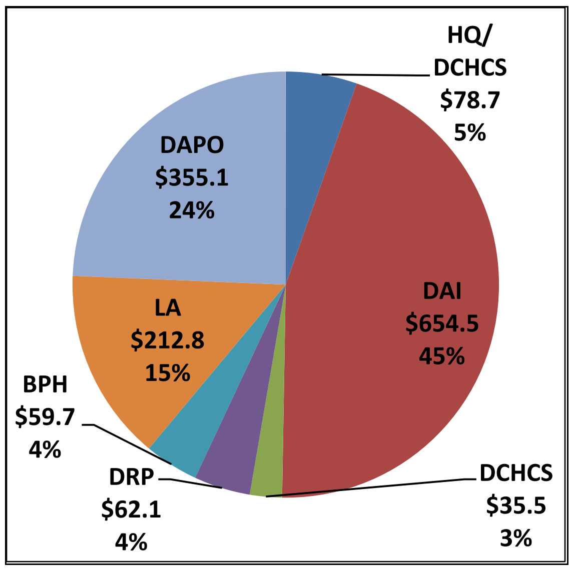
- Reducing adult inmate average daily population (ADP) to 123,725[6] as follows:
  - State Institutions—119,937
  - Out-of-state contract facilities—1,864
  - In-state contract facilities—1,825
  - Female contract beds—99
- Reducing adult parolee ADP to 39,821[7] as follows:
  - Regular parolees—32,809
  - Parolees at large—7,012
- Reduce staffing by 6,431[8] positions.

Table 1 and Figure 1 present the Blueprint's 2014-15 spending reduction goals by operational area.

Table 1: 2014-15 Blueprint Goals

Operational Area	Blueprint Goal (in millions)	Percentage of Total Benchmark
DAI	$ 654.5	45
DAPO	355.1	24
LA	212.8	15
HQ/DCHCS Administration	78.7	5
DRP	62.1	4[9]
BPH	59.7	4
DCHCS	35.5	3
Blueprint Benchmark	**$1,458.4**	**100**

Figure 1: 2014-15 Blueprint Goals



6 Blueprint Appendix A–Multi-Year Savings and Position Reduction Figures, Average Daily Population Table.
7 Blueprint Appendix A–Multi-Year Savings and Position Reduction Figures, Division of Adult Parole Operations Table.
8 Blueprint Appendix A–Multi-Year Savings and Position Reduction Figures, Average Daily Population Table.
9 The DRP expenditure reduction was $76 million and the augmentation was $13.9 million. Therefore, the net reduction is $62.1 million ($76 million - $13.9 million). The expenditure reduction portion represents 5 percent of the benchmark.

SCOPE AND METHODOLOGY

In accordance with Penal Code section 5032, the Department of Finance, Office of State Audits and Evaluations (Finance) evaluated CDCR's achievement of the 2014-15 Blueprint fiscal benchmark. In March 2013, April 2014, and March 2015, Finance issued reports detailing CDCR's progress in achieving the Blueprint's benchmark for prior periods.[10]

Our audit objectives were as follows:

- Assess the impact of CDCR's operating environment on the Blueprint fiscal benchmark.
- Determine whether CDCR achieved $1.5 billion in operational savings during fiscal year 2014-15.

We focused our audit on the most significant benchmark components. We considered fiscal benchmark components with expenditure reductions of 5 percent or less of the total benchmark insignificant, and did not evaluate these components for 2014-15. As such, additional savings or erosions related to the insignificant components may have occurred during 2014-15, but would not be reflected in this report.

Our audit was limited to the operational areas/programs as detailed in the Blueprint. Other areas/programs within CDCR were not reviewed, nor was a department-wide analysis of operations in comparison to budget authority performed. Additionally, our audit did not include an assessment of the following:

- Fiscal benchmark design, including budget rates and population projections used to derive the projected savings. Cost factors and/or budget elements not included in the Blueprint's fiscal benchmarks (e.g. consumer price index fluctuations) were also excluded from our analysis and conclusions.
- Other budgetary changes enacted subsequent to Blueprint, or internal funding shifts or redirections.
- Blueprint's programmatic or policy components, such as improvement of the inmate classification system, adherence to the standardized staffing levels, and delivery of rehabilitative programs, as the responsibility for this review was assigned to the Office of Inspector General per Penal Code section 6126.
- Efficiency or effectiveness of CDCR's program operations, compliance with laws, regulations, and/or court mandates.

See Appendix B for the audit methods performed. CDCR's management is responsible for the establishment of oversight, evaluation, and accountability measures to achieve the Blueprint's fiscal benchmark.

ASSUMPTIONS

In conducting our audit, we made the following assumptions:

- The 2012-13 Governor's Budget, without Realignment savings estimates, represents the pre-Blueprint funding base. See Table 1: Blueprint Budget and Benchmark Goal Results in the Results section for the pre-Blueprint funding base.

[10] Copies of reports can be obtained at www.dof.ca.gov.

- The 2014-15 Blueprint Budget was developed by incorporating the Blueprint Appendix A goals into the pre-Blueprint funding base.
- Subsequent augmentations or reductions to CDCR's budget, and/or program funding shifts or redirections, do not amend the Blueprint fiscal benchmark budgets.
- The 2012-13 Salaries and Wages Supplement (Schedule 7A) incorporated the first year of the Blueprint's position reductions and augmentations. Each year thereafter, the incremental Blueprint reductions and augmentations were applied annually to calculate the Blueprint benchmark goals.

Except as discussed in the following paragraph, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Finance and CDCR 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 generally accepted government auditing standards, performance of these activities creates an organizational impairment with respect to independence. However, Finance has developed and implemented sufficient safeguards to mitigate the organizational impairment so reliance can be placed on the work performed.

The $1.5 billion Blueprint benchmark was not attainable by the California Department of Corrections and Rehabilitation (CDCR) due to significant external impacts to CDCR's operating environment. However, certain benchmark goals for 2014-15 remained relevant. As such, our audit results are categorized as follows:

- CDCR's Operating Environment Impacts on the Blueprint Benchmark
- CDCR's Achievement of Certain Blueprint Benchmark Goals

For reference, the acronyms below are used throughout this section of the report:

- Division of Adult Institutions (DAI)
- Division of Correctional Health Care Services (DCHCS)
- Division of Rehabilitative Programs (DRP)
- Board of Parole Hearings (BPH)
- Local Assistance (LA)
- Division of Adult Parole Operations (DAPO)
- Average Daily Population (ADP)
- Operating Expense and Equipment (OE&E)
- Salaries and Wages Supplement (Schedule 7A)

CDCR's Operating Environment Impacts on the Blueprint Benchmark

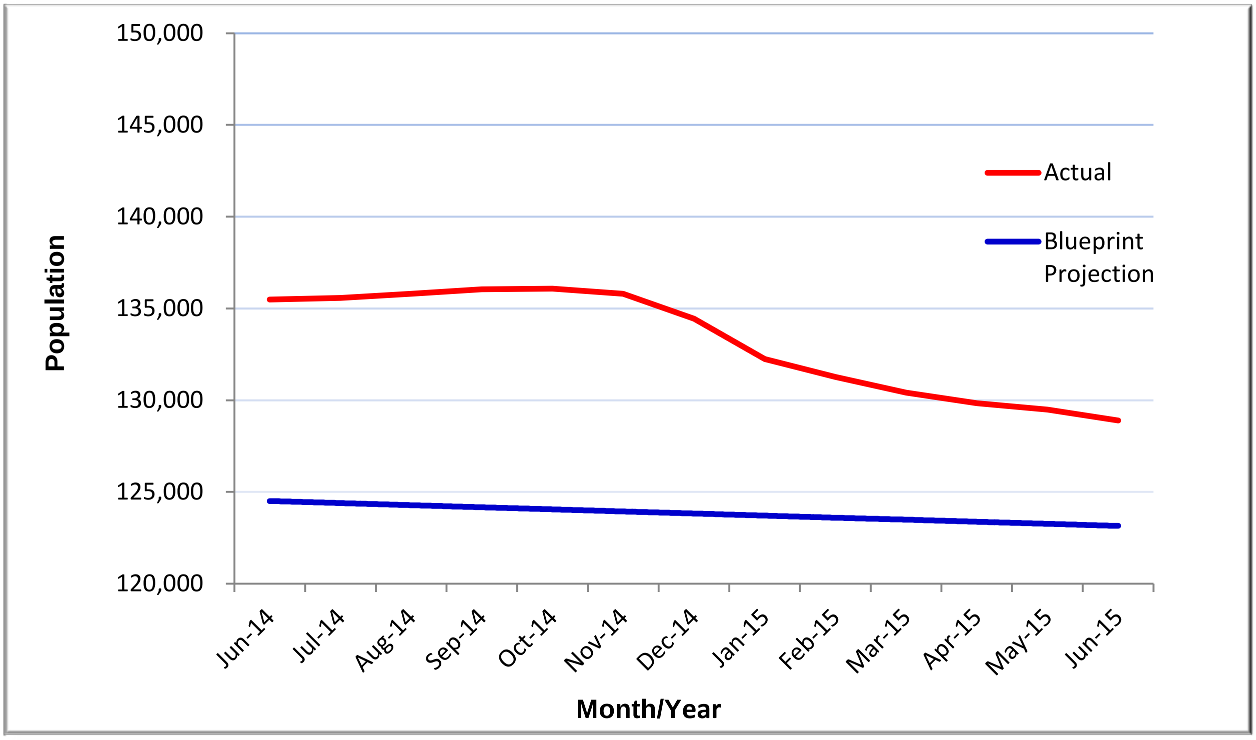
Approximately one year after Blueprint implementation, impacts from court decisions, legislative changes, and higher inmate and parolee population levels resulted in fundamental departures from CDCR's predicted operating environment upon which the Blueprint benchmark goals were designed. DAI, DAPO, and LA, representing 84 percent of the expenditure reduction goals, experienced the most significant impacts.

The Blueprint assumed the inmate population would decline over time to 145 percent of the 34[1] state institutions' design capacity due to Realignment legislation.[2] However, the February 10, 2014 Three Judge Panel court order required CDCR to reduce the institution's inmate population to 137.5 percent of design capacity by February 2016. In response to the court order, CDCR increased inmate transfers from state institutions to out-of-state facilities, in-state contract bed facilities, fire camps, and the recently opened California City Correctional Facility. While the Proposition 47[3] enactment resulted in an unanticipated release of 4,200 inmates as of June 30, 2015, the inmate population trend did not decrease as anticipated in the Blueprint. The resulting ADP for 2014-15 was 133,264, eight percent higher than the

[1] The California Health Care Facility, Stockton, which opened subsequent to the Blueprint development, was included in the Blueprint's 145 percent design capacity assumption.
[2] Assembly Bill 109, the Public Safety Realignment Act, April 2011.
[3] Proposition 47 changed sentencing for certain crimes and permits eligible inmates to petition for re-sentencing. Data provided by CDCR's Office of Research.

123,725,[4] Blueprint goal (See Figure 1 for the 2014-15 inmate population trend-actual vs Blueprint projections). Further, the release of the inmates pursuant to Proposition 47 contributed to the regular parolee ADP of 43,988 during 2014-15, which was 34 percent above the Blueprint assumption of 32,809. Additionally, legislation changed the LA adult probation funding model[5] resulting in funding increases to county probation departments.[6]

Figure 1: Inmate Population Trend-Actual vs Blueprint Projection
Fiscal Year 2014-15



Source: CDCR Population Reports

CDCR's Achievement of Certain Blueprint Benchmark Goals

Considering the impacts of CDCR's operating environment, we evaluated CDCR's achievement of the following significant Blueprint goals with continued relevance:

- $417.2 million net expenditure reduction and augmentation goals for DRP and DAPO.
- Position reduction goals for Headquarters, DCHCS Administration,[7] BPH, DAI Headquarters, DAI Office of Correctional Safety, and DAPO Headquarters; and position augmentation goal for DRP.

4 Blueprint Appendix A–Multi-Year Savings and Position Reduction Figures, Average Daily Population Table.
5 Chapter 41, Statutes of 2012 (SB 1021) enacted on June 27, 2012, revised the county probation incentive payments and added a requirement for the collection of data for felony probation failures resulting in jail incarceration. This resulted in an augmentation of payment allocations to county probation departments demonstrating success in reducing the number of adult felony probationers going to prison or jail for committing new crimes or violating the terms of probation. For 2014-15, SB 105 revised the SB 678 funding formula to calculate state savings based on the costs of incarcerating an inmate in a contract facility instead of the marginal cost per inmate in a state institution.
6 CDCR does not have control or responsibility over the LA expenditure reductions as this portion of the Blueprint goals relate to county governments.
7 DCHCS Administration refers to program administration for Mental and Dental Health Services and does not include the Receiver's Office of California Correctional Health Care Services.

While CDCR achieved $386 million in combined spending reductions for DRP and DAPO, it fell short of achieving the Blueprint benchmark of $417.2 million by $31.2 million[8] (8 percent). The position reduction goals were achieved for Headquarters, DCHCS Administration, BPH, DAI Headquarters, DAI Office of Correctional Safety, and DAPO Headquarters. Although DRP made progress in filling augmented positions, 173 net positions remained vacant as of June 30, 2015.

Expenditure Reduction/Augmentation Results by Program

Some DRP and DAPO programs experienced erosion, while others exceeded the Blueprint expenditure reduction or augmentation goal. Table 1 provides the calculation of erosion/additional savings based on the 2014-15 Blueprint Budget and actual expenditures (excluding encumbrances). Table 2 provides additional detail of the components that comprise the erosion or additional savings.

The programs administered by DRP and DAPO include the following:

DRP

- *Academic and Vocational Program*—Operates education programs to enable adult offenders to successfully reenter society.
- *Adult Community-Based Program*—Utilizes a variety of rehabilitative and reentry assistance programs designed to promote successful reintegration of parolees into society.
- *Substance Abuse Program*—Provides rehabilitative programs in-prison, and as part of the community reentry services to promote positive social behavior and reduce recidivism and relapse.
- *Administration Program*—Provides administrative support to CDCR's rehabilitative programs.

DAPO

- *Adult Supervision Program*—Improves public safety through reintegration and release to society of offenders paroled from state prison.
- *Adult Community-Based Program*—Component administered by DAPO is comprised of the sex offender treatment and mentally ill parolee rehabilitation.
- *Adult Administration*—Works in conjunction with field operations to ensure the safety of the public and parolees.

[8] Expenditures were measured and reported in accordance with generally accepted accounting principles modified accrual basis of accounting, which excludes encumbrances.

Table 1: Blueprint Budget and Benchmark Goal Results
(in millions)

Operational Area	Pre-Blueprint Funding Base[9]	Blueprint Benchmark Reduction/ (Augmentation)	2014-15 Blueprint Budget	2014-15 Expenditures[10]	(Erosion)/ Additional Savings	Goal Met/ Not Met
	A	B	C=A-B	D	E=B-D	
DRP						
Augmentation:						
Academic and Vocational	$ 147.1	$ (13.9)	$161.0	$188.5	$(27.5)	No
Reductions:						
Adult Community-Based	52.0	13.0	39.0	46.7	(7.7)	No
Substance Abuse	147.2	60.9	86.3	62.4	23.9	Yes
Administration	15.8	2.1	13.7	14.5	(0.8)	No
DRP Total	**$ 362.1**	**$ 62.1**	**$300.0**	**$312.1**	**$(12.1)**	**No**
DAPO						
Reductions:						
Adult Supervision	$ 481.2	$276.4	$204.8	$272.0	$(67.2)	No
Adult Community- Based	140.8	34.4	106.4	51.6	54.8	Yes
Adult Administration	91.0	44.3	46.7	53.4	(6.7)	No
DAPO Total	**$ 713.0**	**$355.1**	**$357.9**	**$377.0**	**$(19.1)**	**No**
Combined Total	**$1,075.1**	**$417.2**	**$657.9**	**$689.1**	**$(31.2)**	**No**

[9] The pre-Blueprint funding represents the base budget from which the Blueprint reductions/augmentations listed in the Blueprint's Appendix A were calculated. The 2014-15 Blueprint Budget is based on the budget rates and population projections in effect at the time the Blueprint was created and is not adjusted for subsequent budgetary changes.

[10] Expenditures were measured and reported in accordance with generally accepted accounting principles modified accrual basis of accounting, which excludes encumbrances.

Table 2: Blueprint Expenditure/Augmentation Erosion/Savings by Category
(in millions)

Program	(Erosion)/Additional Savings[11]			
	Personal Services	OE&E	Reimbursements[12]	Total
	A	B	C	D=A+B+C
DRP				
Augmentation:				
Academic and Vocational	$ (3.6)	$(31.0)	$7.1	$(27.5)
Reductions:				
Adult Community-Based	0	(14.9)	7.2	(7.7)
Substance Abuse	(1.1)	(8.9)	33.9	23.9
Administration	(1.0)	0.2	0	(0.8)
Total DRP	**$ (5.7)**	**$(54.6)**	**$48.2**	**$(12.1)**
DAPO				
Reductions:				
Adult Supervision	$(80.0)	$ 12.8	$ 0	$(67.2)
Adult Community-Based	28.6	26.2	0	54.8
Adult Administration	(8.1)	1.4	0	(6.7)
Total DAPO	**$(59.5)**	**$ 40.4**	**$ 0**	**$(19.1)**
Combined Total	**$(65.2)**	**$(14.2)**	**$48.2**	**$(31.2)**

Significant factors contributing to CDCR's achievement of the spending reductions and/or augmentation goals by program are as follows:

DRP

- *Academic and Vocational Program*—The $27.5 million erosion is attributed to delayed start-up operating and equipment costs budgeted and encumbered in earlier years that were realized in 2014-15. Additionally, the program incurred distributed administration costs and higher personal services costs due to salary and benefit rate increases not reflected in the Blueprint Budget.
- *Adult Community-Based Program*—CDCR attributes the $7.7 million in erosion to increased spending in service contracts for additional day reporting centers and increased utilization of both day reporting centers and parolee service centers. CDCR reports it expanded Day Reporting Centers to Calaveras, Santa Clara, and Monterey Counties.
- *Substance Abuse Program*—CDCR attributes the $23.9 million in savings to delayed contract implementation and a decline in the contracted costs incurred for community reentry services and the Female Offender Treatment and Employment Programs.
- *Administration Program*—Erosion of $0.8 million was due to personal services costs for salary and benefit rate increases not reflected in the Blueprint Budget.

[11] Erosion/Additional Savings amounts do not include encumbrances.
[12] Reimbursements represent funds received from external sources to reimburse CDCR for services provided. The reimbursements are tracked by program and reduce the program's net expenditures.

DAPO

- *Adult Supervision Program*—Erosion of $67.2 million was due to higher personal services costs. Specifically, additional parole agents were required to supervise 11,179 parolees in excess of the Blueprint projections. Other costs included salaries and benefit rate increases, overtime, separation pay, and workers' compensation costs. CDCR offset some of these costs with savings from global positioning services (GPS) monitoring contracts. These savings were achieved due to a smaller non high-risk sex offender population while expanding GPS monitoring to Community Transitional and Male Community Re-entry program populations.
- *The Adult Community-Based Program*—Savings totaling $54.8 million were attributable to lower mentally ill[13] and high-risk sex offender parolee populations. This resulted in lower levels of supervision[14] and clinical staffing. Additionally, medication cost reductions were achieved due to the combination of a lower mentally ill and high-risk sex offender population, cost efficiencies gained from a formulary change to generic medications, and an increase in the Medi-Cal contribution under the Affordable Care Act. Furthermore, the smaller parolee population resulted in less contract costs for sex offender treatment and polygraph services.
- *Adult Administration*—The $6.7 million erosion was due to higher personall services costs due to salary and benefit rate increases, separation pay, and workers compensation costs. Some of these costs were offset by $1.3 million in savings from the consolidation of the Regional Offices.

Position Reduction/Augmentation Results by Program

As presented in Table 3, CDCR exceeded the position reduction goals as of June 30, 2015. The position reductions were achieved through a combination of vacancies, authority reductions of positions historically held vacant, and other budget authority reductions. See Appendix A for additional detail.

Although DRP made progress filling its positions, it still did not meet the 2014-15 Blueprint goal by 173 net positions.[15] As of June 30, 2015, DRP had 183.1 vacancies in Librarians (50.4 vacancies), Vocational Instructors (46 vacancies), and Teacher classifications (86.7 vacancies), while the administrative classifications exceeded the position authority by 10.2 positions.

CDCR stated that some positions may have been filled during the year, but were vacated prior to June 2015. Furthermore, DRP indicated that the education program experienced recruitment challenges.

[13] Enhanced Outpatient Program and Correctional Clinical Case Management System.

[14] The Enhanced Outpatient program's supervision staffing costs were charged to the Adult Supervision Program. These positions were reflected in the Adult Community-Based Program instead of the Adult Supervision Program in the Blueprint.

[15] Positions for unpaid staff on long-term leave were considered vacant.

Table 3: Blueprint Position Reduction/Augmentation Results

Division/Office	2014-15 Blueprint Goal[16]	Filled Positions as of June 2015	Greater/(Less) than Blueprint Goal	Goal Met/ Not Met
	A	B	C=A-B	D
Augmentation:				
DRP	1,633.7	1,460.8	(172.9)	No
Reductions:				
Headquarters	2,617.4	2,259.1	358.3	Yes
DCHCS Administration[17]	231.8	211.2	20.6	Yes
BPH	223.6	210.9	12.7	Yes
DAI				
DAI Headquarters	474.7	396.7	78.0	Yes
Office of Correctional Safety	173.7	143.0	30.7	Yes
DAPO Headquarters[18]	384.5	292.8	91.7	Yes

[16] The 2014-15 Blueprint position goals were derived by reducing or augmenting the 2013-14 Blueprint position goal (as presented in the prior audit report issued in March 2015) by the net change in positions per Blueprint Appendix A. Because the Blueprint's Appendix A amounts are presented cumulatively from year to year, the cumulative figures were adjusted by the prior year goals to arrive at the 2014-15 position reduction or augmentation amounts.

[17] DCHCS Administration refers to program administration for Mental and Dental Health Services and does not include the Receiver's Office of California Correctional Health Care Services.

[18] The Blueprint Appendix A–Multi-Year Savings and Position Reduction Figures, Division of Adult Parole Operations Table specified the number of positions for DAPO Headquarters.

Table 4 provides a detailed calculation of the Blueprint Position Reduction/Augmentation goals and achievements by division/office. The 2012-13 Salaries and Wages Supplement (Schedule 7A) incorporated the first year of the Blueprint's position reductions and augmentations. Each year thereafter, the incremental Blueprint reductions and augmentations were applied annually to calculate the Blueprint Benchmark goals.

Table 4: Blueprint Position Reduction/Augmentation Results

Division or Office	2013- 2014 Blueprint Benchmark Goal	2014-2015 Blueprint Changes	2014-2015 Blueprint Benchmark Goal	Filled Positions as of June 2015	Greater/ (Less) than Blueprint	Goal Met/ Not Met
	A	B	C=A+B	D	=C-D	
Reductions:						
Headquarters:						
Accounting	399.9	0.0	399.9	287.8	112.1	Yes
Budget Management Branch	73.3	0.0	73.3	60.8	12.5	Yes
EIS-BIS-SOMS[1]	599.2	0.0	599.2	563.6	35.6	Yes
Facilities Planning and Construction Management	338.1	0.0	338.1	304.9	33.2	Yes
Human Resources[2]	400.0	(14.0)	386.0	369.0	17.0	Yes
Office of Business Services	109.2	0.0	109.2	104.6	4.6	Yes
Office of Internal Affairs	189.0	0.0	189.0	156.3	32.7	Yes
Office of Legal Affairs	208.7	0.0	208.7	178.3	30.4	Yes
Office of Labor Relations	36.0	(6.0)	30.0	20.3	9.7	Yes
Office of the Ombudsman	7.0	0.0	7.0	9.0	(2.0)	No
Office of Legislation	6.0	0.0	6.0	7.0	(1.0)	No
Office of Research	70.1	0.0	70.1	52.5	17.6	Yes
Office of Public and Employee Communications	21.0	0.0	21.0	20.4	0.6	Yes
Office of the Secretary	28.9	0.0	28.9	11.6	17.3	Yes
Office of Audits and Court Compliance	112.0	0.0	112.0	74.2	37.8	Yes
Office of Victim and Survivor Rights and Services	27.0	0.0	27.0	26.8	0.2	Yes
Regulation and Policy Management Branch	12.0	0.0	12.0	12.0	0.0	Yes
Total Headquarters	2,637.4	(20.0)	**2,617.4**	**2,259.1**	**358.3**	Yes
Division of Health Care Services Administration	231.8	0.0	**231.8**	**211.2**	**20.6**	Yes
BPH	223.6	0.0	**223.6**	**210.9**	**12.7**	Yes
DAI						
DAI Headquarters	474.7	0.0	**474.7**	**396.7**	**78.0**	Yes
Office of Correctional Safety	173.7	0.0	**173.7**	**143.0**	**30.7**	Yes
DAPO Headquarters	469.5	(85.0)	**384.5**	**292.8**	**91.7**	Yes
Augmentation:						
DRP[3]	1,633.7	0.0	**1,633.7**	**1,460.8**	**(172.9)**	No

[1] Enterprise Information System (EIS), Business Information Systems (BIS), and Strategic Offender Management System (SOMS).
[2] Human Resources includes Office of Peace Officer Selection positions.
[3] DRP does not include positions from the Cal-ID program that are funded by the Inmate Welfare Fund.

Appendix B

METHODOLOGY

To plan the audit, we identified the 2014-15 Blueprint benchmark components, gained an understanding of significant current events impacting the Blueprint benchmark achievement, identified Blueprint benchmark goals with continued relevance, and gained an understanding of the California Department of Corrections and Rehabilitation's (CDCR) fiscal operations and position data reporting.

We evaluated whether key internal controls relevant to our audit objectives, such as reviews and approvals, reconciliations, and separation of duties were properly designed and effectively implemented.

We assessed the reliability of CDCR's System Applications and Products (SAP) expenditure data, by performing the following: 1) Interviewed staff regarding initiation of transactions, data entry, processing, and reporting; 2) Compared the data to prior periods for reasonableness; and 3) Validated the data to contracts, purchase orders, invoices, journal entries, and error reports to verify completeness and accuracy. When we identified discrepancies such as inaccurate expenditure accruals, we brought them to management's attention and corrected the discrepancies before conducting the audit methods in Table 5. We determined the SAP expenditure data was sufficiently reliable for the purposes of our report.

We also assessed the reliability of the Management Information Retrieval System (MIRS) personnel position data by performing the following: 1) Traced the data to timesheets and, 2) Corroborated the data with the SAP payroll cost distribution data. We determined the MIRS personnel position data were sufficiently reliable for the purposes of our report.

Based on the results of our planning, evaluation of internal controls, and data reliability assessment, we developed the methods used to address the specific audit objectives in Table 5.

Table 5: Audit Objectives and Methods

Audit Objective	Methods
Assess the impact of CDCR's operating environment on the Blueprint fiscal benchmark.	1. Determined the impact of significant current events such as court decisions, inmate population trends, legislation, and changes to the 2014-15 Blueprint benchmark. 2. Identified Blueprint benchmark goals with continued relevance within CDCR's operating environment.

Audit Objective	Methods
Evaluate CDCR's achievement of the Blueprint expenditure reduction/augmentation goals.	3. Evaluated whether CDCR achieved the expenditure reduction/augmentation goals for DRP and DAPO by performing the following procedures: a. Assessed whether the 2014-15 Blueprint Budget reflected the expenditure reductions/augmentation goals as stated in Appendix A of the Blueprint by comparing the budget to the pre-Blueprint funding base. b. Verified the 2014-15 expenditures reported by CDCR in accordance with the generally accepted accounting principles modified accrual basis of accounting. The modified accrual basis of accounting recognizes expenditures when the related liability is incurred, but does not reflect encumbrances. c. Evaluated whether the Blueprint benchmark reduction/augmentation goal was achieved by comparing the 2014-15 expenditures to the corresponding Blueprint Budget. d. Determined whether benchmarks reported as met were consistent with the Blueprint plan. e. Evaluated CDCR management's explanations of significant variances in achieving the benchmarks for reasonableness.
Evaluate CDCR's achievement of the Blueprint position reduction/augmentation goals.	4. Evaluated whether CDCR achieved the position reduction/augmentation goals for Headquarters, DCHCS Administration, BPH, DAI Headquarters, DAI Office of Correctional Safety, DAPO Headquarters, and DRP by performing the following procedures: a. Verified the agency and payroll reporting unit combinations for each division using the Organizational Unit Code Chart. b. Reviewed the categorization of the 2014-15 authorized positions from 2015-16 Salary and Wages Supplement (Schedule 7A) into divisions and offices. c. Assessed whether the 2014-15 Schedule 7A position authority was adjusted to the Blueprint benchmark authority. d. Determined the 2014-15 Blueprint position goal by incorporating the 2014-15 position changes into the

Audit Objective	Methods
	2013-14 Blueprint goal as identified in our prior report dated March 25, 2015.
Evaluate CDCR's achievement of the Blueprint position reduction/augmentation goals (continued).	e. Verified that the reported number of filled positions for June 2015 by division was supported by the MIRS file base pay hours and other pay categories as follows: • 902-Temporary Help • 916-Retired Annuitants • 917-Permanent Intermittent Correctional Officer • 918-Salaries and Wages Other • 919-Overtime Avoidance Pool • 920-Long Term Sick All other pay categories including overtime, award, and differential pay, etc., were excluded. f. Recomputed the full-time equivalent filled position conversion by dividing the total number of hours worked by 176 for the June 2015 pay period. g. Evaluated whether the position augmentation/reduction goal was met by each division or office by comparing the filled positions to the Blueprint goal as of June 30, 2015. h. Evaluated CDCR management's explanations of significant variances for reasonableness.

RESPONSE

OFFICE OF THE SECRETARY
P.O. Box 942883
Sacramento, CA 94283-0001

March 11, 2016

Ms. Cheryl L. McCormick, CPA
Associate Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, CA 95814

Dear Ms. McCormick:

The California Department of Corrections and Rehabilitation (CDCR) is submitting this letter in response to the Department of Finance's (DOF) draft audit report titled "California Department of Corrections and Rehabilitation, Achievement of 'The Future of California Corrections' Blueprint Fiscal Benchmarks." After review of the report, the Department has two areas of concern regarding the exclusion of encumbrances in calculating year-end expenditures and the definition of vacant positions.

DOF's report states that the "Modified Accrual Method" was utilized in evaluating expenditures and that encumbrances were excluded. Auditing under a methodology that excludes encumbrances will inaccurately reflect expenditures for the year being audited since it is not accounting for all obligations created in that year. Per DOF's Finance Glossary of Accounting and Budgeting Terms, the definition of Modified Accrual Basis accounts for all obligations including encumbrances when it states that "expenditures are recognized when the obligations are created". This accepted methodology most accurately displays obligations to authority. A methodology such as the one used in the audit that excludes accrued expenditures from the year of obligation by posting to a subsequent year essentially assigns expenditures to the incorrect year of authority, runs contrary to year-end financial reporting and is out of compliance with DOF's own definition of the Modified Accrual Basis.

Further, CDCR respectfully disagrees with the methodology used to calculate filled positions. The filled positions were determined by a point in time report for the month of June. This method characterizes a position as "vacant" that has been filled for 11 months of the year, but has not generated pay in the month of June. For example, employees on military leave, and other unpaid leave such as leave protected under the Family and Medical Leave Act, do not generate pay, yet these positions are considered vacant. A vacant position is a position that is not filled but can be filled. A position not generating pay because the incumbent is on unpaid leave is filled and cannot be recruited for, therefore, should be considered filled.

CDCR would like to thank DOF for the opportunity to respond to the draft report. Should you have any questions or concerns, please contact me at (916) 323-6001.

Sincerely,

Original Signed by:

ALENE SHIMAZU
Director
Division of Administrative Services

EVALUATION OF RESPONSE

The California Department of Corrections and Rehabilitation's (CDCR) response to the draft report has been reviewed and incorporated into the final report. In its response, CDCR disagrees with the exclusion of encumbrances in calculating year-end expenditures and the definition of vacant positions. To provide clarity and perspective, we provide the following comments:

The audit methodology to evaluate CDCR's achievement of the Blueprint fiscal benchmark goals reflects generally accepted accounting principles modified accrual basis of accounting. This basis of accounting recognizes expenditures when goods or services are received resulting in an obligation of payment. Therefore, this methodology reflects whether the Blueprint reduction or augmentation benchmark goals were achieved during the time period specified in the Blueprint.

The Glossary of Accounting and Budgeting Terms referenced in CDCR's response describes the Legal/Budgetary modified accrual basis of accounting. This method reflects the execution of the State's budget and matches expenditures and encumbrance commitments to the authorizing budget authority. However, an encumbrance represents a reservation of funds for goods and services expected to be received during a future period. As a result, this method does not align with the annual Blueprint reduction or augmentation benchmark goals. Therefore, our report results remain unchanged.

The position analysis reflects the filled positions as of June 30, 2015 based on the computation of total number of hours worked and converted to full-time equivalents. The intent of the Blueprint is to achieve and sustain the position reduction or augmentation benchmarks. The report acknowledges that some positions may have been filled during the year, but vacated prior to June 2015. Additionally, the report discloses that positions for unpaid staff on long-term leave were considered vacant. Therefore, our report results remain unchanged.