



DEPARTMENT OF
FINANCE

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Transmitted via e-mail

August 8, 2012

Ms. Dalinda Harman, Chief, Contract Beds Unit
California Department of Corrections and Rehabilitation
10961 Sun Center Drive,
Rancho Cordova, CA 95670

Dear Ms. Harman:

Final Report—Delano Community Correctional Facility Close-Out Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its close-out audit of the Delano Community Correctional Facility, contract R89.1591.101, for the period July 1, 2008 through August 21, 2011.

The enclosed report is for your information and use. The City of Delano's (City) response to the report observations 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 City staff. If you have any questions regarding this report, please contact Jennifer Whitaker, Manager, or John Rogers, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Joseph Moss, Chief Deputy Warden, Contract Beds Unit, California Department of Corrections and Rehabilitation
Mr. Brian K. Coates, Associate Warden, Contract Beds Unit, California Department of Corrections and Rehabilitation
Ms. Flordeliza Ligaya, Staff Services Manager I, Contract Beds Unit, California Department of Corrections and Rehabilitation
Ms. Maribel Reyna, City Manager, City of Delano
Ms. Rosa Rios, Finance Director/Treasurer, City of Delano
Ms. Sylvia Bermudez, Assistant Finance Director, City of Delano

Audit Report

Delano Community Correctional Facility

Contract R89.1591.101

For the Period July 1, 2008

through August 21, 2011

Prepared By:

Office of State Audits and Evaluations

Department of Finance

MEMBERS OF THE TEAM

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

You can contact our office at:

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TABLE OF CONTENTS

Background, Scope and Methodology.....	1
Results.....	3
Response.....	6
Evaluation of Response	8

BACKGROUND, SCOPE AND METHODOLOGY

BACKGROUND

The California Department of Corrections and Rehabilitation (Corrections) administers the Community Correctional Facility Program (Program). The Program is intended to ease overcrowding in state institutions, reduce the need for building new state correctional institutions, and provide a financial benefit for the local community in which the facility is located. The Community Correctional Facilities Administration within Corrections is responsible for the on-site administration of the Program.

Penal Code section 6256 authorizes Corrections to enter into contracts with appropriate public and private entities to provide housing, sustenance, supervision, inmate work incentive programs, education, vocational training, pre-release program assessment planning, and other services, as stipulated. Corrections contracted with the City of Delano (City) for operation of the Delano Community Correctional Facility (Facility).

On June 15, 2011, Corrections provided the City the required 60-day notice of intent to terminate contract R89.1591.101 under which the Facility is administered. Accordingly, the contract was terminated and the Facility closed effective August 21, 2011.

Contract R89.1591.101 requires the Facility to account for its funds separately from its general operations. Below is a description of each fund held by the Facility:

- *Inmate Telephone Revenue Fund (ITRF)*—A fund operated to augment, among other items, the budgeted education program costs of the facility, funded through a percentage of inmate collect call revenues.
- *Equipment Replacement Fund (ERF)*—A fund operated for the replacement of non-expendable assets of the Facility through funding by Corrections.
- *Inmate Welfare Fund (IWF)*—A fund operated for the benefit and welfare of inmates who are under the jurisdiction of Corrections.
- *Construction Fund (CF)*—A fund that accounts for excess bond funds available for major capital improvement projects.
- *Inmate Trust Fund (ITF)*—A fund that accounts for moneys belonging to inmates through work performed or money received from family or friends.

SCOPE

In accordance with an interagency agreement with Corrections, the Department of Finance, Office of State Audits and Evaluations (Finance), conducted a close-out audit of contract R89.1591.101 between Corrections and the City for the period July 1, 2008¹ through August 21, 2011.

¹ Date of Finance's last audit.

Our review focused on the ending balances for ITRF, ERF, IWF, and CF. The audit objectives were to:

- Determine whether the funds' financial reports accurately represent revenues received and expenditures incurred.
- Review the activities and contract compliance of the funds.
- Determine the ending balance for each fund.

We also performed a review of the ITF, limited to identifying any inmate trust accounts dormant within the six months prior to Facility closing.

METHODOLOGY

To determine whether the ending balances were accurate, complete, and proper for the ITRF, ERF, IWF, and CF, we performed the following procedures:

- Interviewed key personnel to obtain an understanding of fund-related internal controls.
- Examined the contract files, the contract agreement, and applicable policies and procedures.
- Verified that the Facility maintained the funds in accordance with contract requirements.
- Reviewed the accounting records, vendor invoices, and related vendor contracts.
- Selected a sample of expenditures to determine if costs were allowable, supported, and properly recorded.
- Performed procedures to determine if reported revenues were supported, complete, and accurate.
- Identified and assessed the propriety of any fund transfers.

We performed the following limited procedures to identify any dormant trust accounts in the ITF:

- Interviewed key personnel.
- Reviewed trust account balances to identify whether inmate dormant accounts existed within six months of the Facility closing.

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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The results of the audit are based on our review of the documentation and other information made available to us. The ending balances for each fund are presented in Tables 1 through 4.

Table 1: Equipment Replacement Fund Close-Out Balance

Equipment Replacement Fund For the Period July 1, 2008 through August 21, 2011	
Category	Reported
Beginning Fund Balance as of July 1, 2008	\$779,145
Add: Revenues	134,587
Less: Expenditures	(787,879)
Ending Fund Balance as of August 21, 2011	\$125,853

Table 2: Inmate Telephone Revenue Fund Close-Out Balance

Inmate Telephone Revenue Fund For the Period July 1, 2008 through August 21, 2011	
Category	Reported
Beginning Fund Balance ¹ as of July 1, 2008	\$757,361
Add: Revenues	692,324
Less: Expenditures	(705,244)
Ending Fund Balance as of August 21, 2011	\$744,441

Table 3: Inmate Welfare Fund Close-Out Balance

Inmate Welfare Fund For the Period July 1, 2008 through August 21, 2011		
Category	Reported	Questioned
Beginning Fund Balance as of July 1, 2008 ²	\$373,437	
Add: Revenues	828,926	
Less: Expenditures	(1,138,752)	
Canteen Inventory Write-off ³	(21,569)	\$ (17,853)
Ending Fund Balance as of August 21, 2011	\$ 42,042	

¹ See Observation 1.

² See Observation 1.

³ See Observation 2.

Table 4: Construction Fund Close-Out Balance

Construction Fund For the Period July 1, 2008 through August 21, 2011	
Category	Reported
Beginning Fund Balance as of July 1, 2008	\$491,549
Add: Revenues	13,025
Less: Net Transfer Out ¹	(21,873)
Expenditures	(68,210)
Ending Fund Balance as of August 21, 2011	\$414,491

Inmate Trust Fund

The review of the Inmate Trust Fund was limited to identifying any dormant inmate trust accounts outstanding within the last six months prior to the Facility closing. The ending balance as reported by Facility management is presented here for illustration purposes only. The reported amounts were not audited and, therefore, should not be relied upon for accuracy and completeness. During our audit, we did not find any dormant accounts.

Table 5: Schedule of Inmate Trust Fund (Unaudited)

Inmate Trust Fund For the Period July 1, 2008 through August 21, 2011	
Category	Reported
Beginning Fund Balance as of April 1, 2009	\$ (2,382)
Add: Deposits	27,259
Less: Disbursements	(6,054)
Ending Fund Balance as of August 21, 2011	\$18,823

Observation 1: Unsupported Accounting Adjustments

The Inmate Telephone Revenue Fund (ITRF) and Inmate Welfare Fund (IWF) beginning fund balances included significant accounting adjustments totaling \$757,361 and \$373,437, respectively. Supporting financial records needed to substantiate the adjustments were not provided. As a result, the Facility was unable to demonstrate whether the ITRF and IWF reported balances were complete and accurate.

The Financial Management Handbook for Public Community Correctional Facilities (Handbook), section III.B, requires that all transactions recorded will be supported by sufficient, competent, and relevant source documentation.

¹ Funds were used to pay the final bond payment.

Recommendation:

The City should ensure all transactions recorded in the financial reports are adequately supported in accordance with the terms of the contract agreement and Handbook.

Observation 2: Unauthorized Disposal of Canteen Inventory

Canteen inventory totaling \$21,569 was written-off from the Inmate Welfare Fund (IWF) due to spoilage and missing inventory items. The write-off includes an estimated \$17,853 in inventory the City donated to a local charity without prior authorization from Corrections. In addition, the City could not provide supporting documents substantiating the inventory items donated and the charity organization receiving the donation.

California Department of Corrections (Corrections) Business Administration Manual, section 4205, establishes that the IWF is the property of Corrections for the benefit of inmates. It also requires approval from Corrections before disposing of IWF assets.

Section III.B of the Handbook requires that all transactions will be supported by sufficient, competent, and relevant source documentation.

Recommendation:

Corrections will make the final determination in recovering the unauthorized disposal of IWF canteen inventory valued at \$17,853.



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CITY MANAGER
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July 6, 2012

David Botelho, CPA
Department of Finance
Office of State Audits and Evaluation
300 Capitol Mall, Suite 801
Sacramento, CA 95814

Re: State Department of Finance Draft Report – Delano Community Correctional Facility Close-Out Audit, contract R89.1591.101.

The City of Delano, as manager of the subsidiary organization Delano Community Correctional Facility, is in receipt of the draft audit report prepared by your department regarding the closing of the Delano Community Correctional Facility, Contract R89.1591.101. This letter shall serve as the City of Delano's response to the audit findings to be incorporated in the final draft report as stated in the cover letter attached to the draft report. Please find below the City of Delano's response in order of the observations as listed in the draft report:

Observation 1: Unsupported Accounting Adjustments

Recommendation: The City should ensure all transactions recorded in the financial reports are adequately supported in accordance with the terms of the contract agreement and Handbook.

Response: City Staff provided Department of Finance financial records that were readily available however will discuss with the Department of Corrections, if requested.

Observation 2: Unauthorized Disposal of Canteen Inventory

Recommendation: Corrections will make the final determination in recovering the unauthorized disposal of IWF canteen inventory valued at \$17,853.

Response: City Staff will discuss with the Department of Corrections, if requested.

If there are any further questions related to the findings or the report I can be contacted at (661)721-3310 ext 2222 or by via email at mreyna@cityofdelano.org.

Sincerely,

City of Delano

Original signed by:

Maribel Reyna,
City Manager

CC: Alan Peake, City Attorney, City of Delano
Rosa Rios, Finance Director, City of Delano

EVALUATION OF RESPONSE

The Department of Finance, Office of State Audits and Evaluations (Finance), reviewed the City of Delano's (City) response, dated July 17, 2012, to our draft audit report. The following comments relate to Observations 1 and 2:

Observation 1: Unsupported Accounting Adjustments

The City indicated the financial records were readily available to Finance during the audit. However, because the City did not provide the documentation to support the accounting adjustments, the observation and recommendation will remain unchanged in the report.

Observation 2: Unauthorized Disposal of Canteen Inventory

The City did not clearly indicate whether it agreed with the issue regarding the unauthorized disposal of canteen inventory. Because the City did not provide adequate facts with documentation to support modification, the observation and recommendation will remain unchanged in the report