DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. ▪ GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

Transmitted via e-mail

February 2, 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—Golden State Modified Community Correctional Facility, Contract R96.134

The Department of Finance, Office of State Audits and Evaluations, has completed its fiscal compliance audit of the Golden State Modified Community Correctional Facility (Facility) for the period July 1, 2007 through June 30, 2010.

The enclosed report is for your information and use. The GEO Group's 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 the Facility. If you have any questions regarding this report, please contact Kimberly Tarvin, Manager at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: Ms. Lydia Romero, Chief Deputy Warden, Contract Beds Unit, California Department of Corrections and Rehabilitation
Ms. Joan Smith, Associate Warden, Contract Beds Unit, California Department of Corrections and Rehabilitation
Mr. Robert Logan, Staff Services Manager I, Contract Beds Unit, California Department of Corrections and Rehabilitation
Mr. Renato Araza, Program Analyst, Contract Beds Unit, California Department of Corrections and Rehabilitation
Mr. Ronald A. Brack, Vice President, Chief Accounting Officer and Controller, The GEO Group, Inc.
Mr. Brian Evans, Senior Vice President and Chief Financial Officer, The GEO Group, Inc.
Mr. Chuck Hill, Director, Business Management, The GEO Group, Inc.
Ms. Cheryl Nelson, Director, Contract Compliance, The GEO Group, Inc.
Mr. Johnny Choate, Facility Director, Golden State Modified Community Correctional Facility
Mr. Jeffrey Chavez, Business Manager, The GEO Group, Inc.

A Fiscal Compliance Audit

Golden State Modified Community Correctional Facility Contract R96.134 For the Period July 1, 2007 through June 30, 2010

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

115225010 DDR

October 2011

MEMBERS OF THE TEAM

Kimberly Tarvin, CPA
Manager

M. Osman Sanneh, CPA
Supervisor

Staff
Kweku Atta-Mensah
Issa Ndiaye

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

You can contact our office at:

Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814
(916) 322-2985

Table of Contents

Executive Summary

The California Department of Corrections and Rehabilitation (Corrections) contracted with The GEO Group, Inc. (GEO), to operate the Golden State Modified Community Correctional Facility (Facility). GEO is responsible for providing inmate housing, sustenance, and coordinating inmate activities within the Facility. Under the direction of on-site Corrections staff, GEO also assists with inmate custody and Facility security. The Facility is located in McFarland, California, and is designed to accommodate an average daily population of 600 male inmates.

Corrections requested the Department of Finance, Office of State Audits and Evaluations (Finance), to perform a fiscal compliance audit of contract R96.134 for the period July 1, 2007 through June 30, 2010.

Results:

- The cost reports included $1,989,174 in unsupported and unallowable costs including $1,554,965 in administrative costs, $241,302 in unsupported property taxes, and $192,907 in unallowable depreciation costs. The Facility should ensure all costs reported are supported and allowable.

- GEO reported Facility expenditures that significantly deviated from the contracted line item budgets without a Budget Revision approved by Corrections. GEO should obtain Corrections' advance approval prior to transferring funds in excess of $10,000 or more than 10 percent among line item categories.

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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 GEO Group, Inc. (GEO), for operation of the Golden State Modified Community Correctional Facility (Facility).

As stipulated by contract R96.134, the Facility's funding is a combination of flat rate expenditure reimbursement and per diem funding. The combined funding was $10,986,145 for fiscal year 2007-08, $13,139,580 for 2008-09, and $13,139,580 for 2009-10. Contract funds are used for the expenditure categories as shown in Appendix A.

The Facility is required to account for its funds separately from its general operations. Below is a description of each fund held by the Facility:

- *Inmate Welfare Fund*—A fund operated for the benefit and welfare of inmates who are under the jurisdiction of Corrections.
- *Inmate Trust Fund*—A fund that accounts for moneys belonging to inmates through work performed or money received from family or friends.
- *Inmate Telephone Revenue Fund*—Special program funds received for inmate telephone services designed for specific activities, as outlined in the contract.

SCOPE AND OBJECTIVES

In accordance with an interagency agreement with Corrections, the Department of Finance, Office of State Audits and Evaluations (Finance), conducted a fiscal compliance audit of contract R96.134 between GEO and Corrections for the period July 1, 2007 through June 30, 2010. The audit objectives were to:

- Obtain an understanding of the Facility's internal control related to accurate and timely development of cost reporting data and safeguarding of state assets.

- Determine whether the Facility's cost reports accurately represent revenue received and expenditures incurred.
- Determine the Facility's compliance with the contract's fiscal and reporting requirements.
- Review the activities and contract compliance of the Inmate Welfare Fund, and Inmate Telephone Revenue Fund.
- Determine the ending balances of the Inmate Welfare Fund and Inmate Telephone Revenue Fund as of June 30, 2010.

Because our objectives did not include performing a financial statement audit, we do not express an opinion on the financial information presented in the Appendices. Furthermore, our review of the Facility's internal control and compliance was not to provide assurance on the Facility's internal control as a whole, or to provide an opinion on compliance. Accordingly, we do not provide such assurance or express such an opinion.

METHODOLOGY

To determine whether the Facility's cost reports were accurate and in compliance with the contract's fiscal and reporting requirements, we performed the following:

- Reviewed the contract agreement, Corrections' Department Operations Manual, and the Financial Management Requirements for Community Correctional Facilities dated January, 1995 (Handbook).
- Obtained an understanding of the Facility's internal control through inquiries of Facility staff.
- Traced information reported on the cost reports to the Facility's general ledger and subsidiary ledgers.
- Assessed revenue and expenditures reported in the Facility's general ledger for reasonableness.
- Traced a sample of receipts and disbursements to supporting documentation.

To assess the completeness and propriety of the Inmate Welfare Fund and Telephone Revenue Fund, we performed the following:

- Gained and understanding of the internal control.
- Reviewed the Facility's general ledger and/or subsidiary ledgers.
- Identified fund transfers.
- Determined whether transfers met eligibility requirements.
- Assessed fund disbursements.
- Investigated any unusual transactions.
- Verified that the Facility maintained the funds in accordance with contract requirements.

The results are presented in the *Findings and Recommendations* section of this report. The Appendices include schedules of financial related information presented for additional information and analysis.

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.

This report is intended solely for the information and use of Facility, GEO, and Corrections management, and is not intended to be and should not be used by anyone other than these specified parties. However, this restriction is not intended to limit the distribution of this report, which is a matter of public record.

FINDING 1 Unsupported and Unallowable Expenditures Totaling $1,989,174

Condition: The cost reports included unsupported administrative costs of $1,554,965, unsupported property taxes of 241,302, and unallowable depreciation costs of $192,907. See Table 1 for details.

Table 1: Summary of Unsupported and Unallowable Expenditures

Category	2007-08	2008-09	2009-10	Total
Administrative Costs	$493,333	$526,783	$534,849	$1,554,965
Property Tax	60,297	153,470	27,535	241,302
Depreciation	48,862	40,726	103,319	192,907
Total	$602,492	$720,979	$665,703	$1,989,174

Administrative Costs
The Administrative Overhead Plan is provided in GEO's annual reports. However, GEO did not provide the following information requested related to the Administrative Overhead Plan. Without this information, GEO could not provide reasonable assurance that its overhead cost allocation is fair and equitable.

- Professional Salaries—Composition of the professional salaries to verify that unallowable items such as bonuses and special pay were not included in the costs allocated to the Facility.

- Other Professional Fees—Composition of costs included in this line item to verify that these costs should be allocated to the Facility.

- Corporate-Wide Administrative Overhead Costs—Evidence that the corporate-wide administrative overhead costs were allocated to all its facilities, including both foreign and domestic facilities.

Property Tax
GEO reported property tax payments of $241,302 in the cost reports that were not supported by property tax payment records.

Depreciation
GEO reported $192,907 in unallowable equipment depreciation expenses in the cost reports.

Criteria: The Financial Management Requirements for Community Correctional Facilities (Handbook), section IV.C.10 states that administrative services rendered must be measurable and applicable to the contracted facility program. In addition, documentation supporting the administrative overhead rate is subject to audit. The Handbook further states that the cost allocation plan must include a detailed breakdown of costs, identify cost categories that are allowable, and must identify cost categories that are allowable as administrative overhead costs.

The Handbook section IV.B states that all costs recorded will be supported by sufficient, competent, and relevant source documentation.

Contract R96.134 between GEO and Corrections and the Handbook prohibits equipment depreciation expenses.

Recommendation:

The Facility should ensure that only allowable and adequately supported costs are reported in the cost reports in accordance with the terms of the contract agreement and Handbook.

FINDING 2 Reported Expenditures Inconsistent with Approved Budget

Condition: GEO reported Facility expenditures that significantly deviated from the contracted line item budgets without a Budget Revision approved by Corrections. Tables 2 through 4 detail the significant line item deviations by fiscal year. Line items that exceed the budget represent expenditure levels not approved by Corrections. Additionally, because the contracted per diem rate is determined by budget estimates, a risk exists that unexpended budgeted funds could represent an inflated per diem rate.

Table 2: Expenditures Significantly Deviating from Contract Budget
Fiscal Year 2007-08

Category	Contract Budget	Reported	Over/(Under)	Percentage
Staff Salaries and Benefits	$4,541,347	$4,634,264	$92,917	2%
Consultant Services	77,504	64,786	(12,718)	(16%)
Property Taxes	396,122	421,652	$25,530	6%
Operating Expenses	1,079,610	883,375	(196,235)	(18%)
General Liability Insurance	143,650	108,966	(34,684)	(24%)

Table 3: Expenditures Significantly Deviating from Contract Budget
Fiscal Year 2008-09

Category	Contract Budget	Reported	Over/(Under)	Percentage
Staff Salaries and Benefits	$5,329,611	$5,401,531	$71,920	1%
Transportation	44,067	32,970	(11,097)	(25%)
Consultant Services	75,000	14,424	(60,576)	(81%)
Operating Expenses	1,079,445	1,012,005	(67,440)	(1%)
General Liability Insurance	132,720	121,979	(10,741)	(8%)
Property Taxes	448,833	386,592	(62,241)	(14%)
Food	488,713	451,147	(37,566)	(8%)

Table 4: Expenditures Significantly Deviating from Contract Budget
Fiscal Year 2009-10

Category	Contract Budget	Reported	Over/(Under)	Percentage
Staff Salaries and Benefits	$5,329,611	$5,551,918	$222,307	4%
Consultant Services	75,000	0	(75,000)	(100%)
Property Taxes	448,833	352,530	(96,303)	(21%)
Operating Expenses	1,079,445	1,056,395	(23,050)	(2%)
Transportation	44,067	34,197	(9,870)	(22%)

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Criteria: The Handbook, section III requires GEO to obtain prior written approval from Corrections for any change(s) to a budget line item that exceeds $10,000 or 10 percent of any line item in the contract allotment. The Budget Revision form is to be used when the contractor wishes to adjust funding or staffing based on actual spending patterns by increasing or decreasing the budget from one line item to another.

Recommendation:

GEO should obtain Corrections' advance approval prior to transferring funds in excess of $10,000 or more than 10 percent among line item categories.

Appendix A
Schedule of Reported and Audited Revenue and Expenditures

Golden State Modified Community Correctional Facility Contract R96.134 Schedule of Reported and Audited Revenue and Expenditures For the Period July 1, 2007 through June 30, 2008				
Category	**Contract Budget**	**Reported**	**Questioned[1]**	**Audited**
Revenue	$10,986,145	$10,965,542		$10,965,542
Expenditures:				
Staff Salaries and Benefits	4,541,347	4,634,264		4,634,264
Food	467,522	459,545		459,545
Transportation	47,156	45,551		45,551
Consulting/Contracted Services	77,504	64,786		64,786
Operating Expenses	1,079,610	883,375	(48,862)	834,513
Property Tax	396,122	421,652	(60,297)	361,355
General Liability Insurance	143,650	108,966		108,966
Administrative Overhead	488,122	493,333	(493,333)	0
Facility Lease/Use	3,164,598	3,164,598		3,164,598
Total Expenditures	$10,405,631	$10,276,070	($602,492)	$ 9,673,578
Profit/(Loss)				$ 1,291,964
Corporate Fee[2]	$ 580,514	$ 689,472		$ 689,472

[1] See Finding 1.
[2] The Corporate Fee is presented separately because it represents a portion of the Facility's Profit/(Loss).

Golden State Modified Community Correctional Facility
Contract R96.134
Schedule of Reported and Audited Revenue and Expenditures
For the Period July 1, 2008 through June 30, 2009

Category	Contract Budget	Reported	Questioned[3]	Audited
Revenue	$ 13,139,580	$12,553,409		$12,533,409
Expenditures:				
Staff Salaries and Benefits	5,329,611	5,401,531		5,401,531
Food	488,713	451,147		451,147
Transportation	44,067	32,970		32,970
Consulting/Contracted Services	75,000	14,424		14,424
Operating Expenses	1,079,445	1,012,005	(40,726)	971,279
Property Tax	448,833	386,592	(153,470)	233,122
General Liability Insurance	132,720	121,979		121,979
Administrative Overhead	536,477	526,783	(526,783)	0
Facility Lease/Use	4,200,000	4,200,000		4,200,000
Total Expenditures	$ 12,334,866	$12,147,431	($720,979)	$11,426,452
Profit/(Loss)				1,106,957
Corporate Fee[4]	$ 804,714	$ 405,979		$ 405,979

[3] See Finding 1.
[4] The Corporate Fee is presented separately because it represents a component of the Facility's Profit/(Loss).

Golden State Modified Community Correctional Facility
Contract R96.134
Schedule of Reported and Audited Revenue and Expenditures
For the Period July 1, 2009 through June 30, 2010

Category	Contract Budget	Reported	Questioned[5]	Audited
Revenue	$13,139,580	$13,004,569		$13,004,569
Expenditures:				
Staff Salaries and Benefits	5,329,611	5,551,918		5,551,918
Food	488,713	429,257		$ 429,257
Transportation	44,067	34,197		$ 34,197
Consulting/Contracted Services	75,000	0		$ 0
Operating Expenses	1,079,445	1,056,395	(103,319)	$ 953,076
Property Tax	448,833	352,530	(27,535)	$ 324,995
General Liability Insurance	132,720	122,812		$ 122,812
Administrative Overhead	536,477	534,849	(534,849)	$ 0
Facility Lease/Use	4,200,000	4,200,050		4,200,050
Total Expenditures	$12,334,866	$12,282,008	($665,703)	$ 11,616,305
Profit/(Loss)				$ 1,388,264
Corporate Fee[6]	$ 804,714	$ 722,562		$ 722,562

[5] See Finding 1.
[6] The Corporate Fee is presented separately because it represents a portion of the Facility's Profit/(Loss).

APPENDIX B
INMATE WELFARE FUND BALANCES

Golden State Modified Community Correctional Facility Contract R96.134 Inmate Welfare Fund Balances For the Period July 1, 2007 through June 30, 2010			
	July 1, 2007 through June 30, 2008	**July 1, 2009 through June 30, 2009**	**July 1, 2009 through June 30, 2010**
Beginning Balance	$22,587	$32,809	$35,683
Add:			
Deposits	64,323	57,098	48,843
Subtotal	86,910	89,907	84,526
Deduct:			
Disbursements	(54,101)	(54,224)	(48,558)
Ending Balance	$32,809	$35,683	$35,968

Appendix C

Inmate Telephone Revenue Fund Balances

Golden State Community Correctional Facility Contract R96.134 Inmate Telephone Revenue Fund Balances For the Period February 1, 2009 through June 30, 2010		
	February 1, 2009 through June 30, 2009	**July 1, 2009 through June 30, 2010**
Beginning Balance	$1,568,862	$1,575,016
Add:		
Interest	6,176	11,705
Subtotal	1,575,038	1,586,721
Deduct:		
Disbursements/Withdrawals	(22)	0
Ending Balance	$1,575,016	$1,586,721

RESPONSE

The GEO Group, Inc.
Western Region Office
6100 Center Drive
Suite 825
Los Angeles, CA 90045

TEL: 310 348 3000
www.geogroup.com

December 14, 2011

Mr. David Botelho, CPA
Department of Finance
Chief, Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 05814

RE: Draft Audit Report – Golden State MCCF, Contract R96.134

Dear Mr. Botelho:

I am writing to you in response to your communication dated November 4, 2011 regarding the Draft Audit Report – Golden State Modified Community Correctional Center (Report).

In the Report there were two findings (summarized below) to which we have provided initial comments for each on an individual basis as noted:

Finding 1

The cost reports included unsupported administrative costs of $1,554,965, unsupported property taxes of $241,302, and unallowable depreciation costs of $192,907.

Management Response

GEO will address each of these areas separately beginning with administrative costs.

Administrative Costs

GEO provided The Administrative Overhead Plan and allocation methodology. The three areas that have been identified as having insufficient information were:

- Professional Salaries
- Other Professional Fees
- Corporate-Wide Administrative Overhead Costs

Management has a corporate allocation method, previously approved in prior audits, which eliminates unallowable salaries, entire department costs, and other unallowable expenses from our calculations. The table below shows the total Corporation's overhead, reduced by specific unallowable departments, and then the remaining amount of unallowable costs we have deducted from our overhead which then leaves the amount used in our allocation method. Management is confident that our plan follows the guidelines as per the previously approved Corporate Allocation Method, as is evidenced by our elimination of 44-46% of our annual overhead costs from our Administrative Overhead Plan calculations.

	2007-2008 OH Summary	2008-2009 OH Summary	2009-2010 OH Summary
Total Overhead	**$ 66,127,772**	**$ 66,030,865**	**$ 70,031,955**
Less: Business Development	$ 720,258	$ 4,546,039	$ 4,746,127
Less: Legal	$ 3,841,322	$ 4,246,974	$ 2,528,890
Less: International	$ 950,248	$ 478,472	$ 641,677
Less: M & A	$ 1,697,829	$ -	$ 2,347,250
Net Overhead	$ 58,918,115	$ 56,759,380	$ 59,768,011
Excluded Overhead	$ 21,744,118	$ 21,204,838	$ 22,255,652
Reported Overhead	**$ 37,173,997**	**$ 35,554,542**	**$ 37,512,359**

Professional Salaries. GEO reported only allowable professional salaries in our "Administrative Overhead Plan". This is evidenced by the table below showing total overhead wages, our reported allowable wages, and the amount GEO did not allocate to the facilities. The amount not allocated is comprised of executive compensation above the maximum limit, bonuses, and special pay.

	2007-2008	2008-2009	2009-2010
Total Compensation	$23,799,703	$24,357,648	$26,056,857
Allocated Compensation	$17,074,071	$15,387,968	$15,367,317
Unallowable Compensation	$ 6,725,632	$ 8,969,680	$10,689,540

Management believes we have fairly and accurately represented the allowable compensation as "Professional Salaries" and our amounts do not contain unallowable costs.

Other Professional Fees. GEO excludes significant overhead costs. GEO only includes allowable costs in the Administrative Overhead allocation and has specifically excluded legal fees, entertainment, fines and/or penalties, interest costs, merger and acquisition fees, business development fees, and lobbying/political contributions, and other contributions/donations from the amounts that comprise our overhead to be allocated.

Corporate-Wide Administrative Overhead Costs. GEO's Administrative Overhead Plan includes allowable overhead/administrative expenses that are directly related to our GEO Corrections North America division and has allocated those expenses over the facilities within GEO Corrections North America. In our calculation of total allowable expenses, GEO excludes all costs associated with other subsidiaries (International and GEOCare). All expenses related to the "International" division housed in our Corporate Office were excluded from the Overhead Plan allocation calculations, as were all expenses associated with our various international subsidiaries. We have three foreign subsidiaries, or joint ventures in the case of our South African company, each with their own dedicated home (corporate) office providing oversight and support. Management therefore believes, due to the complete exclusion of these costs in the Overhead Plan, GEO correctly allocated the total allowable Administrative Overhead based on our domestic facilities within the Corrections North America division.

Property Taxes

Management's review of the auditor's report of payment amounts found that supplemental tax payments made under the Proposition 13 revaluation were not included, nor were payments made for tangible property taxes included in the auditor's report. In January 2007, when GEO acquired CPT, the owner of the Golden State facility, the assessors were permitted to revalue the properties under California Proposition 13. In reporting the tax amounts on the annual cost reports, GEO used calculations based on our best estimate of values. The assessing jurisdictions commenced their revaluation. It took several years for Kern County to finalize the values. Therefore, the reported amounts were, what management believed at the time, based on our assumption of the new values and assumed new tax rate and supplemental tax amounts. Subsequently, the County billed GEO for supplemental taxes for the reported period, as shown in the table below, however in the years following, GEO's reported tax amount was in fact higher than actual taxes paid. The table below illustrates what true tax amounts were paid and should have been reported. Additionally, tax payments made on "Tangible Property" were not included in the auditor's reported amounts and are included in the table below.

	FY07/08	FY08/09	FY 09/10
Reported Amount	$421,652	$448,833	$352,530
Audited Amount	$361,355	$233,122	$324,995
Additional Prop. Payments	$42,092	$42,050	$ -
Tangible Property Tax	$4,475	$4,430	$4,969
New Amount	$407,922	$279,602	$329,964
Difference	($13,730)	($169,231)	($22,566)

Management acknowledges that there were differences between the reported amounts and actual payments, however at the time GEO reported the best estimated tax payments based on the information available at the time. The difference between the amounts should be removed from the Property Tax line item, and the Corporate Fee should be amended to include that amount.

Depreciation

Depreciation for the cost of the facility was not included in the reported amounts. Depreciation reported was not for "leased equipment" but for computers, furniture, and other non expendable equipment. These are "contractor owned non expendable equipment", and consistent with prior practice and per the Financial Management Handbook section IV.C.5.(b) those may be recognized as costs and reported as such.

Finding 2

Reported expenditures were inconsistent with the approved budget. The facility transferred budgeted funds from one line item to another by more than $10,000 or more than 10 percent without Corrections' prior approval.

Management Response

The final sentence in the "Condition" states "because the contracted per diem is determined by budget estimates, a risk exists that unexpended budgeted funds could represent an inflated per diem rate. As stated in the Financial Management Handbook, this contract is a fixed unit price contract and "any savings which may result from the Contractor's efficient operation of the program under a per diem rate system can be retained by the Contractor if program needs are complied with in accordance with the contract terms". GEO manages our facility to meet all the contractual operational requirements and makes decisions on expenditures based on our operational needs. These needs change quickly in our business environment and GEO reacts to the differing demands by allocating resources to best operate our facility. As such, there are both savings and cost overruns in the budget.

However, as per the Department of Finance's recommendation, GEO will seek to obtain Corrections' approval prior to incurring program expenditures in excess of $10,000 or 10 percent of the budgeted line items where necessary.

Conclusion

GEO appreciates you taking the time to send us this draft report, as well as allowing us the opportunity to clarify any misunderstandings regarding the reported results.

Sincerely,

"Original Signed By"

James C. Hill
Director, Business Management

cc: file

We have reviewed The GEO Group, Inc.'s (GEO), December 14, 2011 response, which is incorporated into this final report. Our comments related to the response are as follows:

FINDING 1: Unsupported and Unallowable Expenditures Totaling $1,989,174

Administrative Costs
GEO disagrees with this finding and states that administrative costs including professional salaries, other professional fees, and corporate-wide administrative overhead costs fairly and accurately represent the allowable compensation.

GEO did not provide records supporting the composition of the professional salaries, other professional fees, or evidence that the allocated corporate-wide administrative overhead costs exclude all costs associated with other subsidiaries. Therefore, the finding remains as originally reported.

Property Taxes
GEO acknowledges there were differences between reported amounts and actual payments, but that the audited amounts did not include supplemental tax payments under Proposition 13 and tangible property taxes. However, GEO did not provide payment records supporting these amounts. The audited amounts reflect actual payments received by the Kern County Assessor's Office. Therefore, the finding remains as originally stated.

Depreciation
GEO disagrees with this finding and states the depreciation costs are for contractor owned nonexpendable equipment including computers, furniture, and other nonexpendable equipment. Additionally, Geo Group indicated the Financial Management Handbook section 1V.C.5(b) allows these costs.

We concur that the questioned depreciation costs pertained to computers, furniture, and other nonexpendable equipment and deleted the term "leased" from the final report. However, Contract R96.134, Amendment 1, section 3, Equipment, states the Financial Management Handbook section IV.C.5 is no longer applicable to the contract and is deleted in its entirety. As a result, the equipment depreciation expenses are not an allowable cost. Therefore, this finding remains in the final report.

FINDING 2: Reported Expenditures Inconsistent with Approved Budget

We appreciate GEO's agreement to obtain Corrections' approval prior to incurring program expenditures in excess of $10,000 or 10 percent of the budgeted line item.