



Transmitted via e-mail

November 18, 2013

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—Taft Community Correctional Facility Close-Out Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its close-out audit of the Taft Community Correctional Facility (Facility), contract R96.1591.105, for the period January 1, 2009 through November 30, 2011.

The enclosed report is for your information and use. The City of Taft's response to the report observations and our evaluation of the response are incorporated into this final report. As a result of our analysis, changes were made to Observation 2 to provide further clarification. This report will be placed on our website.

We appreciate the assistance and cooperation of the City of Taft and the Facility. If you have any questions regarding this report, please contact Cheryl McCormick, Manager at (916) 322-2985.

Sincerely,

Original signed by:

Richard R. Sierra, CPA
Acting 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
Mr. Craig Jones, City Manager, City of Taft
Ms. Teresa Binkley, Finance Director, City of Taft
Mr. Ed Whiting, Chief of Police, City of Taft

Audit Report

Taft Community Correctional Facility
Contract R96.1591.105
For the Period January 1, 2009
through November 30, 2011

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

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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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BACKGROUND, SCOPE AND METHODOLOGY

BACKGROUND

The California Department of Corrections and Rehabilitation (CDCR) 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 CDCR is responsible for the on-site administration of the Program.

Penal Code section 6256 authorizes CDCR 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. CDCR contracted with the City of Taft (City) for operation of the Taft Community Correctional Facility (Facility).

On August 31, 2011, CDCR provided the City the required 90 day notice of intent to terminate contract R96.1591.105 under which the Facility is administered. Accordingly, the contract was terminated and the Facility closed effective November 30, 2011.

Contract R96.1591.105 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 CDCR.
- *Inmate Welfare Fund (IWF)*—A fund operated for the benefit and welfare of inmates who are under the jurisdiction of CDCR.
- *Debt Service Fund (DSF)*—A fund used to account for the annual principal and interest debt service on outstanding bonds.
- *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 CDCR, the Department of Finance, Office of State Audits and Evaluations (Finance), conducted a close-out audit of contract R96.1591.105 between CDCR and the City for the period January 1, 2009¹ through November 30, 2011 (January 31, 2012 for DSF). Our review focused on the ending balances for ITRF, ERF, IWF, and DSF.

¹ Date of Finance's last audit.

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.
- Determine whether cash available in DSF is enough to retire the outstanding bond debt.

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

METHODOLOGY

To determine whether the ending balances were accurate, complete, and proper for the ITRF, ERF, IWF, and DSF, 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 dormant inmate 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 documentation and other information made available to us. The ending balances for each fund are presented in Tables 1 through 5.

Table 1: Inmate Telephone Revenue Fund Close-Out Balance

Inmate Telephone Revenue Fund For the Period January 1, 2009 through November 30, 2011		
Category	Reported	Questioned
Beginning Fund Balance as of January 1, 2009	\$ 498,777	
Add: Revenues	283,009	
Add: Adjustments	19,969 ¹	
Less: Expenditures	(245,593)	\$ (86,826) ²
Less: Transfers Out	(464,708)	
Ending Fund Balance as of November 30, 2011	\$ 91,454	

Table 2: Equipment Replacement Fund Close-Out Balance

Equipment Replacement Fund For the Period January 1, 2009 through November 30, 2011	
Category	Reported
Beginning Fund Balance as of January 1, 2009	\$ 362,939
Add: Revenues	191,439
Less: Expenditures	(533,175)
Ending Fund Balance as of November 30, 2011	\$ 21,203 ³

¹ The City processed closing adjustments to the account that resulted in a net increase in the fund balance.

² See Observation 1.

³ The ending fund balance includes: (1) \$5,786 in questioned costs from the previous audit completed by Finance; (2) \$46 interest allocation variance; and (3) \$3,160 in overstated accruals. As a result, the ending fund balance is overstated by \$8,900.

Table 3: Inmate Welfare Fund Close-Out Balance

Inmate Welfare Fund		
For the Period January 1, 2009 through November 30, 2011		
Category	Reported	Questioned
Beginning Fund Balance as of January 1, 2009	\$ 44,382	
Add: Revenues	160,216	
Add: Transfers In	464,708	
Less: Expenditures	(657,030)	\$ (66,083) ⁴
Ending Fund Balance as of November 30, 2011	\$ 12,276 ⁵	

Table 4: Debt Service Fund Close-Out Balance

Debt Service Fund	
For the Period January 1, 2009 through January 31, 2012	
Category	Reported
Beginning Fund Balance as of January 1, 2009	\$ 3,518,949
Add: Revenues	6,280,877
Less: Disbursements	(7,160,216)
Ending Fund Balance as of January 31, 2012	\$ 2,639,610

Outstanding Bond Debt

As of January 31, 2012, the total Debt Service Fund available cash was \$2,639,610, which was not sufficient to retire the \$9,401,628 outstanding bond debt. With available cash from the Debt Service Fund and CDCR continuing to make the scheduled bond payments, the bond debt can be retired in September 2015 with an approximate final payment of \$37,893.

⁴ See Observation 2.

⁵ The ending fund balance consists of the questioned costs from the previous audit completed by Finance, overstating the ending fund balance by \$12,276.

Inmate Trust Fund

The review of the Inmate Trust Fund was limited to identifying any dormant inmate trust accounts outstanding within 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 Reported Ending Balance For the Period January 1, 2009 through November 30, 2011	
Category	Reported
Beginning Fund Balance as of January 1, 2009	\$ 40,275
Deposits	839,752
Disbursements	(870,210)
Ending Fund Balance as of November 30, 2011	\$ 9,817 ⁶

Observation 1: Unauthorized Use of Inmate Telephone Revenue Funds

The City used \$86,826 of Inmate Telephone Revenue Funds (ITRF) to pay the woodshop lease and off-reservation work crews, although CDCR had communicated to the City that such expenditures were not allowed. ITRF funds can only be used for specific purposes as outlined in the contract.

Contract R96.1591.105, Amendment 5, section 47, requires only eligible expenses can be paid from ITRF.

Recommendation:

CDCR will make the final determination in recovering the \$86,826.

Observation 2: Unallowed Administrative Overhead Expenses

The facility charged \$66,083 to the Inmate Welfare Funds (IWF) to pay City administrative overhead, although CDCR had communicated to the City that such expenditures were unallowed.

CDCR Business Administration Manual, section 4205, requires a plan of operation for inmate canteens and special canteen purchases to be submitted to CDCR for annual review and approval. Changes shall not be made to an approved plan without the prior approval of CDCR.

Recommendation:

CDCR will make the final determination in recovering the \$66,083.

⁶ Ending balance does not include \$1,019 in inmate refunds paid to CDCR on February 24, 2012.

Observation 3: Unauthorized Contracting

Without CDCR approval, the facility contracted out the IWF canteen management to a vendor, waiving any commission from canteen sales and allowed the vendor to retain all profits. As a result, the IWF lost an unspecified amount of profits from canteen sales.

CDCR Business Administration Manual, section 4205, establishes the CDCR Secretary with authority over canteens, requiring CDCR prior approval on all IWF business activities, including contracting-out canteen management. Moreover, section 4205(a) states that any profit from canteens shall be deposited in the IWF.

Recommendation:

CDCR will make the final determination to recover any lost revenue due to the IWF.



October 30, 2013

Richard R. Sierra, CPA
915 L. Street
Sacramento, CA 95814

Mr. Sierra:

Please accept this letter as the requested response to the Draft Report- Taft Community Correctional Facility Close-Out Audit.

With respect to Observation Number1 of the Draft Audit Report concerning the alleged unauthorized use of Inmate Telephone Revenue Funds, it is indicated:

The City used \$86,826 of Inmate Telephone Revenue Funds (ITRF) to pay the woodshop lease and off-reservation work crews, although CDCR had communicated to the City that such expenditures were not allowed. ITRF funds can only be used for specific purposes as outlined in the contract.

Contract R96.1591.105, Amendment 5, section 47 requires only eligible expenses can be paid from ITRF.

The City is not currently aware of any such communications from the CDCR concerning the ITRF funds not being allowed to be used for the woodshop, or off-site work crew, and if such communications do exist, the City hereby requests a copy of the same. That said, even if such a correspondence did exist, it would be contrary to the clear language of Contract R96.1591.105, Amendment 5, section 47, which states in relevant part:

Expenses arising from one or more of the following conditions/activities *shall be eligible* for payment from the deferred revenue referenced herein: ...

2. As second priority, telephone revenue can be used to subsidize financial deficits in the CCF Inmate Welfare Fund, inmate *educational and/or vocational programs*, including the cost of personnel and equipment associated herewith. (Emphasis added.)

There is no doubt that the language of the amendment is mandatory, i.e. that if a specific item is included in the list, the Department must accept that expenditure. Further, there is no doubt that the woodshop and off-reservation work crews would qualify as an “educational / vocational program.” Accordingly, the expenditure of the funds for the same was appropriate and in full compliance of Contract R96.1591.105, Amendment 5, section 47, irrespective of any alleged communication from the CDCR.

In Observation 2 it is stated, “The Facility charged \$66,083 to the Inmate Welfare Fund (IWF) to pay City administrative overhead, although CDCR had communicated to the City that such expenditures were unallowed. CDCR Business Administration Manual, section 4205, requires CDCR approval on all IWF expenses.”

As with Observation 1, the City has no record of such alleged communication from CDCR regarding this observation. The City requests a copy of any such document that you possess which would evidence said claim. Further, the City believes that the representation of what CDCR Business Administration Manual, section 4205 requires is not an accurate representation of the section. The City’s copy of Section 4205 states as follows:

4205. Policy.

Pursuant to P.C. §5005, the Director has established canteens for the benefit of department inmates.

- (a) Any profit from such canteens shall be deposited in the Inmate Welfare Fund.
- (b) The warden/superintendent of each institution shall be responsible for the administration of the canteens in his/her institution in accordance with the Director’s Rules.
- (c) A price list of the items which are authorized for sale in institution and camp canteens, approved by the warden/superintendent shall be established.
- (d) Copies of such price lists shall be kept current, posted at the inmate canteen, and distributed to inmates. One copy shall be forwarded to the Inmate Welfare Fund manager in Central Office.
- (e) Purchases of merchandise not carried in stock but which specifically contribute to the health, welfare, or self-improvement of the inmate may be authorized upon written application and approval of the institution head, or his/her designated representative.
- (f) The maximum monthly withdrawal from an inmate’s trust account for regular canteen purchases shall not exceed \$180. Special purchases for inmates of merchandise not carried in stock shall not be included in this limitation.

- (g) Each warden/superintendent shall submit a plan of operation for inmate canteens and special canteen purchases to the Director for annual review and approval. Changes shall not be made to an approved plan without the prior approval of the Director.

As evidenced above, there is no specific requirement that CDCR must approve "all expenses" only that it shall approve a "plan of operation" which is significantly different than an approval of each and every expense.

In Observation 3 it is claimed that the CDCR lost out on potential profits from the canteen due to the City inappropriately contracting out canteen services. In the CCF Audit conducted by your department dated October 27, 2009, there was a finding that the canteen had historically been losing money. The exact language of your office's Recommendation to finding 4 states: "Ensure IWF canteen expenditures do not exceed the revenue generated unless approved by the Central Office IWF Officer." The City followed the recommendation exactly. This finding is incongruous to the recommendation made to the City in the October 27, 2009 audit¹.

Sincerely,

ORIGINAL SIGNED BY

Craig Jones
City Manager

Teresa Binkley
Finance Director

¹ This incongruity is exceptionally odd considering that you were a member of the audit team that completed the October 27, 2009 audit. Specifically, you are listed as one of the managers of the audit team. You seem to be indicating that the City of Taft should not have followed a recommendation that you were responsible for making.

EVALUATION OF RESPONSE

The City's response to the draft report has been reviewed and incorporated into the final report. In evaluating the City's response, we provide the following comments:

Observation 1

The City disputes the observation and states they were not aware of any communication with CDCR disallowing the use of ITRF funds for the woodshop lease and off-site work crews. Copies of the referenced correspondence with CDCR have been provided to the City. The CDCR correspondence provides that off-site work crews expenditures are eligible for payment from the Facility's inmate pay budget. Additionally, CDCR specified payments pertaining to the woodshop lease would not be approved until the Facility provided a plan and received approval to conduct vocational classes outside the Facility's secure perimeter. Documentation supporting the request and approval of this plan was not provided. Therefore, the observation and recommendation will remain unchanged.

Observation 2

The City disputes the observation and states they were not aware of any communication with CDCR disallowing the use of IWF funds for Administrative Overhead. Copies of the referenced correspondence with CDCR have been provided to the City.

Additionally, the City claims the criteria as stated in the observation is misrepresented and that all IWF expenditures do not require CDCR approval, rather a "plan of operation" is required to be annually approved. We concur and have revised Observation 2 accordingly.

In the above mentioned correspondence, CDCR disapproved the Facility's FY 2009-10 IWF budget explicitly stating that Administrative Overhead was not an approved IWF expense. For FY 2010-11 and 2011-12, the approved plans of operation did not include an Administrative Overhead expense component. Further, documentation supporting CDCR's prior approval for changes to the plans, if any, was not provided. Therefore, the observation and recommendation will remain unchanged, except for the revision to the criteria.

Observation 3

The City disputes the observation and states that it is incongruous to the recommendation made to the City in Finance's prior audit issued October 27, 2009. In 2009, Finance recommended the Facility ensure IWF canteen expenditures do not exceed the revenue generated unless approved by the CDCR Central Office IWF Officer. Our recommendation did not imply nor instruct the Facility to contract the IWF canteen management to a vendor. Further, our current observation pertains to the Facility initiating this vendor contract without the prior approval of CDCR. Although the IWF had previously not been self-sustaining, the change in IWF canteen management could have resulted in recognized sales profits. Therefore, our observation and recommendation remain unchanged.