



Transmitted via e-mail

September 18, 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—Shafter Community Correctional Facility Close-Out Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its close-out audit of the Shafter Community Correctional Facility (Facility), contract R96.1591.104, for the period July 1, 2009 through November 30, 2011.

The enclosed draft report is for your information and use. The City of Shafter'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 the 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
Mr. John Guinn, City Manager, City of Shafter
Mr. James Zervis, Administrative Services Director, City of Shafter
Mr. Paul Lozano, Chief of Corrections, City of Shafter

Audit Report

Shafter Community Correctional Facility

Contract R96.1591.104

For the Period July 1, 2009
through November 30, 2011

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

MEMBERS OF THE TEAM

Jennifer Whitaker
Manager

John Rogers, CPA
Supervisor

Staff

Jeremy Jackson
Renato Lim, CIA
Issa Ndiaye
John Ponce

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
915 L Street, 6th Floor
Sacramento, CA 95814
(916) 322-2985

TABLE OF CONTENTS

Background, Scope and Methodology.....	1
Results.....	3
Response.....	6
Evaluation of Response	9

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 Shafter (City), for the operation of the Shafter Community Correctional Facility (Facility).

On October 4, 2011, Corrections provided the City the required 60 day notice of intent to terminate contract R96.1591.104 under which the Facility is administered. Accordingly, the contract was terminated and the Facility closed effective November 30, 2011.

Contract R96.1591.104 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.
- *Building Replacement Fund (BRF)*—A fund operated for upgrades and replacement 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.
- *Debt Service Fund (DSF)*—A fund used to account for the annual debt service principal and interest on outstanding bonds.
- *Debt Service Reserve Fund (DSRF)*—A fund used to account for the amount required by the bond contract to be maintained in the reserve fund.
- *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 R96.1591.104 between Corrections and the City for the period July 1, 2009¹ through November 30, 2011 (January 1, 2012 for DSF and DSRF). Our review focused on the ending balances for ITRF, ERF, BRF, IWF, DSF, and DSRF. 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 DSR and DSRF 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, BRF, IWF, DSF, and DSRF, 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.

¹ Date of Finance's last audit.

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 6.

Table 1: Inmate Telephone Revenue Fund Close-Out Balance

Inmate Telephone Revenue Fund For the Period July 1, 2009 through November 30, 2011		
Category	Reported	Questioned
Beginning Fund Balance as of July 1, 2009	\$ 0	
Add: Revenues	335,493	
Less: Transfers	(326,757)	\$81,439 ²
Ending Fund Balance as of November 30, 2011	<u>\$ 8,736</u>	

Table 2: Equipment Replacement Fund Close-Out Balance

Equipment Replacement Fund For the Period July 1, 2009 through November 30, 2011	
Category	Reported
Beginning Fund Balance as of July 1, 2009	\$ 574,997
Add: Revenues	167,976
Less: Expenditures	(105,146)
Ending Fund Balance as of November 30, 2011	<u>\$ 637,827</u>

Table 3: Building Replacement Fund Close-Out Balance

Building Replacement Fund For the Period July 1, 2009 through November 30, 2011	
Category	Reported
Beginning Fund Balance as of July 1, 2009	\$ 673,527
Add: Revenues	181,935
Less: Expenditures	(199)
Ending Fund Balance as of November 30, 2011	<u>\$ 855,263</u>

² See Observation 1.

Table 4: Inmate Welfare Fund Close-Out Balance

Inmate Welfare Fund For the Period July 1, 2009 through November 30, 2011		
Category	Reported	Questioned
Beginning Fund Balance as of July 1, 2009	\$ 0	
Add: Revenues	792,249	
Add: Transfers In	245,302	
Less: Expenditures	(1,189,949)	\$201,883 ³
Ending Fund Balance as of November 30, 2011	<u>\$ (152,398)</u>	

Table 5: Debt Service Fund Close-Out Balance

Debt Service Fund For the Period July 1, 2009 through January 1, 2012	
Category	Reported
Beginning Fund Balance as of July 1, 2009	\$1,319,536
Add: Revenues	4,866,365
Less: Expenditures	(5,660,672)
Ending Fund Balance as of January 1, 2012	<u>\$ 525,229</u>

Table 6: Debt Service Reserve Fund Close-Out Balance

Debt Service Reserve Fund For the Period July 1, 2009 through January 1, 2012	
Category	Reported
Beginning Fund Balance as of July 1, 2009	\$1,884,133
Add: Revenues	476
Less: Expenditures	(672)
Ending Fund Balance as of January 1, 2012	<u>\$1,883,937</u>

Outstanding Bond Debt

As of January 1, 2012, the total Debt Service Fund and the Debt Service Reserve Fund available cash was \$2,409,166, which was not sufficient to retire the \$9,401,627 outstanding bond debt. With available cash from the two funds and Corrections continuing to make the scheduled bond payments, the bond debt can be retired in September 2015 with an approximate final payment of \$114,030.

³ See Observation 2.

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 7: Schedule of Inmate Trust Fund (Unaudited)

Inmate Trust Fund Reported Ending Balance For the Period July 1, 2009 through November 30, 2011	
Category	Reported
Beginning Fund Balance as of July 1, 2009	\$ 11,799
Add: Deposits	971,740
Less: Disbursements	(981,957)
Ending Fund Balance as of November 30, 2011	\$ 1,582

Observation 1: Unauthorized Transfer of Funds

The City transferred \$81,439 from the Inmate Telephone Revenue Fund (ITRF) to the Facility's operating fund without Corrections' pre-approval. ITRF funds can only be used for specific purposes as outlined in the contract. The City could not provide supporting documentation to substantiate compliance and whether the City spent those funds on allowed ITRF expenses.

Contract R96.1591.104, Amendment 5, section 47, requires Corrections' approval on all ITRF expenses. The Financial Management Handbook for Public Community Facilities, section III.B, requires all program costs be supported by sufficient, competent, and relevant source documents.

Recommendation:

Corrections will make the final determination in recovering the \$81,439.

Observation 2: Unallowed Payroll Expenses

The City claimed more payroll and benefits expenses than allowed per the contract for the Inmate Welfare Fund (IWF). Specifically, the City exceeded the budget by \$201,883 without Corrections' prior approval.

California Department of Corrections (Corrections) Business Administration Manual, section 4205, requires Corrections' approval on all IWF expenses.

Recommendation:

Corrections will make the final determination in recovering the \$201,833.



336 Pacific Avenue Shafter, California 93263

August 22, 2012

David Botelho, Chief
Office of State Audits and Evaluations
State of California, Department of Finance
915 "L" Street
Sacramento, CA 95814-3706

Dear Mr. Botelho:

Pursuant to your Draft Report – Shafter Community Correctional Facility Close-Out Audit, issued July 10, 2012, we are submitting the attached written responses for each finding outlined in the draft audit report. Further, it is our understanding that these written responses will be included in the final report issued by your department.

We appreciate the professionalism exhibited by your staff during the entire audit process of the Shafter CCF. If you should have any questions regarding the attached written responses do not hesitate to call me (661) 746-5000 or Paul Lozano at (661) 746-8900 ext. 5108.

Sincerely,

Original signed by:

John D. Guinn
City Manager

cc: Paul Lozano
Jim Zervis

AUDIT OBSERVATION	RECOMMENDATION	CITY OF SHAFTER RESPONSE
<p>Observation 1: The City transferred \$81,439 from the Inmate Telephone Revenue Fund (ITRF) to the Facility's operating fund without Corrections' pre-approval. ITRF funds can only be used for specific purposes as outlined in the contract. The City could not provide supporting documentation to substantiate compliance and whether the City spent those funds on allowed ITRF expenses.</p> <p>Contract R96.1591.104, Amendment 5, section 47, requires Corrections' approval on all ITRF expenses. The Financial Management Handbook for Public Community Facilities, section III.B, requires all program costs be supported by sufficient, competent, and relevant source documents.</p>	<p>Corrections will make the final determination in recovering the \$81,439.</p>	<p>The City of Shafter will concede this observation and remit to Corrections the sum of \$81,439.</p>
<p>Observation 2: The City claimed more payroll and benefits expenses than allowed per the contract for the Inmate Welfare Fund (IWF). Specifically, the City exceeded the budget by \$201,883 without Corrections' prior approval.</p> <p>California Department of Corrections (Corrections) Business Administration Manual, section 4205, requires Corrections' approval on all IWF expenses.</p>	<p>Corrections will make the final determination in recovering the \$201,833.</p>	<p>The City of Shafter's IWF has had the same staff members payroll and benefit expenses paid for since the facility was activated in January 1991. It should be noted, Corrections staff Pamela Prudhomme, CDCR Chief (CCFA), and Terry Dickinson, CDCR Correctional Administrator (CCFA), approved the 2008/09 IWF budget on June 27, 2008, which included payroll and benefit expenses for those City staff members. Fiscal years 2009/10, 2010/11 and 2011/12 did not have any changes to payroll but did experience increased benefit (i.e. health care and PERS) expenses.</p> <p>Therefore, this item is no longer an observation whereas Corrections did give approval of those payroll and benefit expenses.</p>

EVALUATION OF RESPONSE

We reviewed the City of Shafter's (City) response, dated August 22, 2012, to our draft audit report. The following comments relate to Observation 2:

Observation 2: Unallowed Payroll Expenses

The City disagreed with this observation, asserting that increases in inmate welfare fund salaries were approved by the California Department of Corrections and Rehabilitation (Corrections). However, written correspondence sent to the City by Corrections denied the salary increases for fiscal years 2009-10, 2010-11, and 2011-12 due to salaries exceeding the contract.

Because the City did not provide documentation supporting Corrections' approval of the salary increases, the observation and recommendation will remain unchanged in the report.