



Transmitted via e-mail

August 9, 2011

Mr. Matthew Cate, Secretary
California Department of Corrections
and Rehabilitation
P.O. Box 942883
Sacramento, CA 94283-0001

Dear Mr. Cate:

Final Audit Report—California Department of Corrections and Rehabilitation, Combined Inmate Welfare Fund for the Fiscal Years Ended June 30, 2009 and June 30, 2010

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its financial audit of the California Department of Corrections and Rehabilitation's (Department) Inmate Welfare Fund (Fund) for the fiscal years ended June 30, 2009 and June 30, 2010.

The enclosed final report is for your information and use. The Department's response to the report findings is incorporated into this final report. The Department agreed with the findings and we appreciate its willingness to implement corrective action. The findings in the report are intended to assist management in improving internal accounting controls over fund operations.

This report will be placed on our website. Additionally, pursuant to Executive Order S-20-09 please post this report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov/> within five working days of this transmittal.

We appreciate the cooperation and assistance of Department staff during our audit. If you have any questions regarding this report, please contact John Rogers, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: On following page

cc: Mr. Scott Kernan, Undersecretary, Operations, California Department of Corrections and Rehabilitation
Ms. Gayle Fifield, Associate Director, Accounting Services, California Department of Corrections and Rehabilitation
Ms. Michele Gomez-Essex, Accounting Administrator II, Inmate Welfare Fund, California Department of Corrections and Rehabilitation
Mr. Michael Brady, Assistant Secretary (A), Office of Audits and Compliance, California Department of Corrections and Rehabilitation.
Ms. Kim Holt, External Audits Manager, Office of Audits and Compliance, California Department of Corrections and Rehabilitation

A FINANCIAL STATEMENT AUDIT

California Department of Corrections and Rehabilitation
Combined Inmate Welfare Fund
For the Fiscal Years Ended
June 30, 2009 and June 30, 2010

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

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This report is also available on our website at <http://www.dof.ca.gov>

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EXECUTIVE SUMMARY

The Department of Finance, Office of State Audits and Evaluations, performed this audit as required by sections 5005 and 5006 of the California Penal Code. The purpose was to audit the California Department of Corrections and Rehabilitation's (Department) Combined Balance Sheet and related Statement of Revenues, Expenses and Changes in Fund Balance of the Inmate Welfare Fund (Fund) for the fiscal years ended June 30, 2009 and 2010. The audit objectives were to:

- Express an opinion on the financial statements based on our audit conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.
- Verify the financial statements were prepared in conformity with the accounting practices for the Fund as prescribed by the State of California and the Department, which comprise a comprehensive basis of accounting other than *Generally Accepted Accounting Principles*.
- As necessary, report on internal control and compliance weaknesses, and provide recommendations for improving controls over Fund operations.

Audit Results

- Due to scope limitations, we do not express an opinion on the Combined Balance Sheet (statutory basis) as of June 30, 2009 and 2010.
- The Combined Statement of Revenues, Expenses and Changes in Fund Balance (statutory basis) is fairly stated and materially correct for the fiscal years ended June 30, 2009 and 2010.
- Material internal control weaknesses were identified relating to the Department not performing reconciliations of the financial statement accounts. In addition, supporting documentation substantiating certain account balances was unavailable.
- Material compliance weaknesses were identified relating to depreciation of equipment and amortization of intangible assets as well as the Department's cost allocation methodology.
- Suggestions for improving the Fund's oversight and operations are included in the Findings and Recommendations section of this report.

INDEPENDENT AUDITOR'S REPORT

Mr. Matthew Cate, Secretary
California Department of Corrections
and Rehabilitation
P.O. Box 942883
Sacramento, CA 94283-0001

We were engaged to audit the accompanying Combined Balance Sheet (statutory basis) of the Inmate Welfare Fund (Fund) as of June 30, 2009 and 2010, and have audited the related Combined Statement of Revenues, Expenses and Changes in Fund Balance (statutory basis) for the years then ended. These financial statements are the responsibility of the California Department of Corrections and Rehabilitation (Department) and institution management, and present information on the activities of the Fund taken as a whole. They are not intended to be a complete presentation of all the financial activities of the Department or the individual institutions. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In connection with our audit, there are certain disclosures required by *Government Auditing Standards*. The Department of Finance (Finance) is not independent of the audited entity, as both are 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. These activities impair independence. However, sufficient safeguards exist for readers of this report to rely on the information contained herein.

As described in Note 2, these financial statements were prepared in conformity with the accounting practices for the Fund as prescribed by the State of California and the Department, which comprise a comprehensive basis of accounting other than *Generally Accepted Accounting Principles*.

Relevant evidence and supporting documentation was not maintained substantiating the balances reported in the Combined Balance Sheet as of June 30, 2009 and 2010. The accounts with material variances are as follows: General Cash, Accounts Payable, Claims Filed, and Due to Other Appropriations within the Same Fund, which is a component of Due to Other Funds.

In addition, material variances were identified between the automated accounting system generated reports and the Combined Balance Sheet as of June 30, 2009 and 2010. Specifically, certain account balances from the previous accounting system were not properly loaded into the current automated accounting system. Instances of inaccurate account classifications and erroneous account balances were identified in the system. We have determined the automated accounting system is not accurately capturing and reporting financial information and is, therefore, unreliable.

Because of the matters discussed in the preceding two paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Combined Balance Sheet of the Fund (statutory basis) as of June 30, 2009 and 2010.

In our opinion, the Combined Statement of Revenues, Expenses and Changes in Fund Balance (statutory basis) for the years ended June 30, 2009 and 2010 present fairly, in all material respects, the results of the Fund's operations and changes in fund balance for the years then ended, in conformity with the basis of accounting described in Note 2.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Fund taken as a whole. The supplemental information, as listed in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the financial statements of the Fund. Such information has been subjected to the auditing procedures applied in the audit of the Fund and, in our opinion, is fairly stated in all material respects in relation to the Combined Statement of Revenues, Expenses and Changes in Fund Balance (statutory basis) for the years ended June 30, 2009 and 2010.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Fund as of and for the years ended June 30, 2009 and 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Department's financial statements will not be prevented or detected and corrected on a timely basis. We identified one deficiency in the Department's internal control we consider to be a material weakness. See Finding 1 in the Findings and Recommendations section for details.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance that are required to be reported under *Government Auditing Standards*. See Finding 2 and Finding 3 in the Findings and Recommendations section for details.

This report is intended solely for the information and use of Department and institution management, those charged with governance and others within the Department, and is not intended to be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Original signed by:

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

June 15, 2011

FINDINGS AND RECOMMENDATIONS

FINDING 1 The Department is not Performing Reconciliations of Balance Sheet Accounts

Condition: The Department has not performed the monthly reconciliations to identify and correct errors in its balance sheet accounts as required. We identified unexplained material variances between the financial statements and the underlying financial documentation for fiscal years 2008-09 and 2009-10. Additionally, we identified erroneous and abnormal general ledger account balances within the automated accounting system, including certain material account balances that were not loaded properly from the predecessor accounting system. Specific instances are as follows:

- General Cash—Fiscal year 2008-09 reported an unreconciled difference of \$10.95 million between the financial statements and the bank reconciliation. A bank reconciliation of the general cash account for fiscal year 2009-10 was not performed.
- Accounts Payable—Fiscal year 2007-08 audited ending balance was not accurately rolled into the fiscal year 2008-09 beginning balance. The ending audited accounts payable balance at June 30, 2008 was \$369,794 and the beginning unaudited accounts payable balance at July 1, 2008 was \$319,173 representing a \$50,621, or 14 percent unexplained variance.
- Accounts Payable—Fiscal year end 2008-09 accruals in the amount of \$362,678 were not recorded, therefore understating the account balance. In addition, for fiscal year 2009-10, the reported accounts payable of \$1.17 million had an unusually large balance as compared to prior years. This includes a beginning balance of \$559,259 that has remained outstanding for over a year, indicating significant errors in the account payable balance. Additionally, sufficient supporting documentation was not available to substantiate the account balance.
- Claims Filed—Fiscal year 2007-08 audited ending balance was not accurately rolled into the fiscal year 2008-09 beginning balance. The ending audited claims filed balance at June 30, 2008 was \$2,839,195 and the beginning unaudited claims filed balance was \$3,120,242 at July 1, 2008 representing a \$281,047, or 10 percent unexplained variance.

- Claims Filed—Fiscal year 2008-09 reported balance in the financial statements was \$349,586 and the automated accounting system balance was \$247,833. The variance between the financial statements and automated accounting system is \$101,753, or 29 percent. Documentation was not available to support the variance. In addition, the reported claims filed account included unsupported claims load and claims processed subsidiary accounts totaling \$821,829.
- Claims Filed—Fiscal year 2009-10 reported claims filed balance in the financial statements was \$447,098 and the automated accounting system balance was \$684,280. The variance between the financial statements and automated accounting system is \$237,182, or 53 percent. Documentation was not available to support the variance. In addition, the reported claims filed account included unsupported claims load and claims processed subsidiary accounts totaling \$427,935.
- Due to Other Appropriations Within the Same Fund—We identified an abnormal debit balance of \$625,963 that was reported in error in the fiscal year 2009-10 financial statements. Correcting journal entries could not be suggested because supporting documentation of the debit balance was not available.

As a result of these unreconciled issues, the foregoing account balances were deemed unreliable and, therefore, unauditable. Had we been able to perform further audit procedures, additional variances may have been identified.

Criteria: State Administrative Manual section 7901 requires the Department to perform monthly reconciliations to ensure that errors are identified and detected in a timely manner.

Recommendations:

- Ensure monthly reconciliations of all account balances are performed. Identified variances should be timely researched and resolved.
- Perform a complete reconciliation of the aforementioned accounts for fiscal year 2008-09 and 2009-10. Identified variances should be timely researched and adjusted in the accounting records.

FINDING 2 Fixed Assets are not Depreciated and Intangible Assets are not Amortized

Condition: The Department is not depreciating the Fund's fixed assets or amortizing the intangible assets. As a result, the Department is not in compliance with the State Administrative Manual requirements. This policy can potentially mislead the users of the financial statements by overstating assets and expenditures.

Criteria: State Administrative Manual sections 8602 and 8616 require state fixed assets with a value \$5,000 or more, and an expected useful life greater than one year to be depreciated.

State Administrative Manual sections 8615, 8616, and 8635 require intangible assets to be recorded at cost and amortized over their useful life.

Recommendation: Implement a policy to depreciate fixed assets and amortize intangible assets. Until such policy is implemented, the Department should obtain an exemption from the Department of Finance, Fiscal Systems and Consulting Unit.

FINDING 3 Central Service Cost Allocation Methodology is not Documented

Condition: The Department does not have a documented methodology for allocating its central service costs. Without a documented allocation methodology, the central service costs charged to the Fund cannot be evaluated for accuracy and appropriateness. This condition is a previous audit finding that remains uncorrected.

Criteria: State Administrative Manual section 9202 states indirect costs are assigned to the programs they benefit according to the methodology that represents a reasonable and equitable distribution. Additionally, it requires that the allocation methodology should be adequately documented.

Recommendation: Formally document the allocation methodology and retain supporting documentation for audit.

BALANCE SHEET
STATUTORY BASIS

**California Department of Corrections and Rehabilitation
Inmate Welfare Fund
Combined Balance Sheet—Statutory Basis
As of June 30, 2009 and June 30, 2010
UNAUDITED**

Assets	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Cash	\$ 2,577,261	\$ 3,871,068
Deposits in Surplus Money Investment Fund	12,669,000	8,110,000
Accounts Receivable	46,025	8,301
Due From Other Funds	118,503	160,490
Canteen Merchandise for Resale	3,360,807	3,220,014
Equipment	2,752,572	2,844,583
Computer Software—Amortizable	1,215,000	0
Provision for Deferred Receivable—Taxes	(5,857)	0
Other—Prepaid Items	<u>26,382</u>	<u>51,450</u>
Total Assets	<u>\$22,759,693</u>	<u>\$18,265,906</u>
 Liabilities and Fund Equity		
Liabilities:		
Accounts Payable	\$ 1,173,125	\$ 563,496
Claims Filed	447,098	349,586
Due to Other Funds	530,825	1,857
Advanced Collections	56,647	68,192
Uncleared Collections	<u>580</u>	<u>41,389</u>
Total Liabilities	2,208,275	1,024,520
 Fund Equity:		
Investment in Equipment/Intangible Asset	3,967,572	2,844,583
Fund Balances:		
Retained Earnings	<u>16,583,846</u>	<u>14,396,803</u>
Total Fund Equity	<u>20,551,418</u>	<u>17,241,386</u>
Total Liabilities and Fund Equity	<u>\$22,759,693</u>	<u>\$18,265,906</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCE—STATUTORY BASIS

**California Department of Corrections and Rehabilitation
Inmate Welfare Fund
Combined Statement of Revenues, Expenses and
Changes in Fund Balance—Statutory Basis
For the Fiscal Years Ended June 30, 2009 and June 30, 2010**

Operating Activity	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Net Canteen Sales	\$ 49,972,481	\$ 49,518,533
Less: Cost of Goods Sold	<u>29,218,215</u>	<u>28,798,203</u>
Gross Margin from Canteen Sales	20,754,266	20,720,330
Less: Personal Services	12,848,679	14,113,807
Supplies & Equipment	305,845	317,290
Inmate Pay	<u>94,191</u>	<u>91,542</u>
Total Canteen Expenses	<u>13,248,715</u>	<u>14,522,639</u>
Income From Canteen Sales	7,505,551	6,197,691
Photo Project Revenue	589,059	674,362
Less: Photo Project Supplies	123,679	243,165
Inmate Pay	<u>2,602</u>	<u>3,100</u>
Income From Photo Project	<u>462,778</u>	<u>428,097</u>
Handicraft Revenue	5,869	23,460
Less: Handicraft Supplies and Expenses	3,537	6,034
Equipment Purchases	0	87
Inmate Pay	<u>4,005</u>	<u>2,994</u>
Income (Loss) From Handicraft Project	<u>(1,673)</u>	<u>14,345</u>
Income From Operating Activity	7,966,656	6,640,133
Non-Operating Activity		
Non-Operating Revenue:		
Interest on Investments	62,453	184,243
Special Purchase Surcharge	109,447	120,012
Misc. Non-operating Revenue	<u>109,252</u>	<u>125,968</u>
Total Non-operating Revenue	281,152	430,223

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCE—STATUTORY BASIS (CONT'D)

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Non-Operating Expenses:		
Trust Restitution Accounting and Canteen System	0	1,454,677
Administrative Expenses	2,368,599	2,650,134
Audit Expenses	319,139	282,812
Inmate Benefits:		
Visitor Program - Friends Outside	2,431,290	2,673,597
Telephone-Visitor Hotline	23,986	23,986
Library	14,702	18,950
Awards	70,802	73,228
Other Goods	27,739	14,406
Movie Rental	347,895	337,276
Entertainment	<u>1,495</u>	<u>2,254</u>
Total Non-operating Expenses	<u>5,605,647</u>	<u>7,531,320</u>
Loss from Non-Operating Activity	(5,324,495)	(7,101,097)
Current Year Net Income (Loss)	2,642,161	(460,964)
Prior Year Adjustments	<u>(463,439)</u>	<u>(17,269)</u>
Total Net Income (Loss)	<u>2,178,722</u>	<u>(478,233)</u>
Beginning Fund Equity	17,756,448	18,224,144
Net Additions (Deletions) to Fixed Assets	<u>(92,010)</u>	<u>10,537</u>
Ending Fund Equity	<u>\$ 19,843,160</u>	<u>\$ 17,756,448</u>

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

**California Department of Corrections and Rehabilitation
Inmate Welfare Fund
Notes to Financial Statements—Statutory Basis
For the Fiscal Years Ended June 30, 2009 and June 30, 2010**

1. Definition of the Reporting Entity

The Inmate Welfare Fund (Fund), administered by the California Department of Corrections and Rehabilitation (Department), was created by Chapter 102, Statutes of 1945. The Department Secretary administers the Fund through budgetary appropriations and oversight of the Fund's annual allocation to each of the correctional institutions located statewide. The warden of each correctional institution administers the institution's Fund operations.

The Department maintains separate accountability for each institution's Fund operations. The Department's Fund and Trust Accounting Section, located in Sacramento, administers the Fund as a whole, maintains centralized institution Fund accounting records, and prepares the combined financial statements.

Section 5005 of the California Penal Code authorizes the Department to establish and maintain prison canteens for sale of toilet articles, candy, notions, and other sundries to inmates. It also states that, "the sale prices of the articles offered for sale shall be fixed by the director at the amounts that will, as far as possible, render each canteen self-supporting."

The Fund's primary revenue-generating activity is canteen sales of food and non-food items to inmates. Through the operation of the canteens in all correctional institutions and other activities such as photo projects, the Fund provides benefits, education, and welfare for the inmates. Benefits include the purchase of publications, rental of movies, work opportunities, and other inmate programs.

These financial statements present information on the combined financial activities of the Fund with a supplemental schedule of revenues and expenses by institution. They do not represent all the financial activities of the Department or of individual institutions.

2. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements present the financial position of the Fund as of June 30, 2009 and 2010 and the results of its operations and changes in fund balance for the years then ended. These financial statements have been prepared in compliance with State of California laws and accounting procedures. In accordance with the State of California's fund classification, the Fund is classified as a *Nongovernmental Trust and Agency Fund* for financial reporting purposes.

B. Basis of Accounting

The accounting method used for the Fund is in compliance with the statutory basis of accounting prescribed by the California State Administrative Manual, Inmate Welfare Fund Manual, and California Government Code, which comprise a comprehensive basis of accounting other than *Generally Accepted Accounting Principles (GAAP)*.

Income

Prior to the automated Trust Restitution Accounting Canteen System (TRACS), which was implemented in July 2008 for the womens' institutions and November 2008 for the mens' institutions, money was collected in advance from the inmates' trust accounts and was recorded as a liability in the advance collections account until sales were made. After implementation of TRACS, canteen sales are recognized at the time of sale, and the funds are directly transferred from the inmates' trust accounts at the point of sale. For mini-canteens, money is collected in advance through the sale of yard ducats, which are redeemed for canteen merchandise. The sale is recognized at the time when the yard ducats are redeemed at the main canteen. Photo Project sales are recognized at the time that photo tickets are sold.

Expenses

During the fiscal year, expenses are recognized when claims to the State Controller are filed against the current year appropriation, or when funds are transferred to the State Payroll Revolving Fund for the payment of salaries and wages. Valid expense commitments including encumbrances are accrued as accounts payable at June 30.

Equipment and Intangible Asset

Equipment and software (assets) are expensed in the year of acquisition; however, assets valued at \$500 or over and with an estimated useful life of 12 months or more are capitalized and fully reserved on the balance sheet. The intangible asset is the cost of the TRACS software only. Other costs incurred during the TRACS' application development stage such as payroll and consultation fees were not capitalized.

The Department has elected not to depreciate the Fund's capitalized assets or recognize the associated depreciation/amortization expense. This is a departure from GAAP, which requires assets to be expensed over their useful life by an appropriate method. The effects of this departure from GAAP could not be reasonably determined.

C. Allocated Costs

Fund expenses incurred in providing centralized accounting and administrative services and certain inmate benefits are allocated to each institution to more accurately report the total costs for each institution's Fund operations. The allocation of the centralized accounting and administrative costs is based on each institution's proportional share of the total Fund's cost of goods sold; and the allocation of statewide inmate benefits is based on each institution's proportional share of the total statewide average inmate population. The effect on the financial statements is to increase each institution's expenses and decrease each institution's net income; however, there is no effect on the combined Fund net income.

D. Prior Year Adjustments

The Prior Year Adjustments Account is used to record income and expense adjustments made for a prior fiscal year. These adjustments usually reflect under-accruals, over-accruals, and corrections of errors and estimates made at the prior fiscal year-end. Accruals and changes in estimates are not prior period adjustments under GAAP. For statutory reporting purposes, these adjustments are shown as a separate line item between "Current Year Net Income" and "Total Net Income."

E. Retirement Plan

The Department's civil service employees are members of the California Public Employees' Retirement System (CalPERS), which is a defined benefit, contributory retirement plan. Retirement contributions by employees are set by statute as a percentage of payroll (Tier I and Safety employees), or are zero (Tier II employees). Retirement contributions by the employer to CalPERS are actuarially determined under a program where total contributions plus CalPERS investment earnings will provide the necessary funds to pay retirement benefits when incurred. Each institution's employer contributions are included in the cost of personal services. For further information, refer to the annual single audit of the State of California and to the CalPERS Comprehensive Annual Financial Report.

F. Vacation and Sick Leave

Under the statutory basis of accounting, the state does not record the costs of vacation, annual leave, and sick leave at the time the benefits are accumulated. When leave is used, it is expensed as a personal services cost. Under GAAP, the accumulation of employees' vacation and personal leave credits is accrued as a liability.

G. Budgetary Control

The Fund's annual budget is legally adopted through the Budget Act. While the appropriations contained in the Budget Act are the primary sources of spending authority, the budget can be amended throughout the year. Appropriations are available for expenses or encumbrances in the year appropriated. Encumbrances not liquidated within two years from the end of the period when the appropriation is made available lapse, and the unused appropriation is returned to the Fund.

Fund management is responsible for exercising budgetary control and ensuring appropriations are not overspent. Actual expenses did not exceed appropriations in fiscal year 2008-09 and 2009-10. However, as described in Note 2.D, prior year expense accruals can differ from actual amounts paid in the current year. The differences are not material.

H. Canteen Merchandise at Cost

Canteen Merchandise at Cost represents the value of canteen merchandise inventory available for resale to inmates. Canteen merchandise is maintained under a perpetual inventory system and is valued by the moving average cost method of inventory valuation. In addition, prompt-payment discounts, vendor rebates, and other adjustments are posted to cost of sales. These are departures from GAAP, which

requires discounts to be posted to inventory and inventories to be valued at cost or at current market value, whichever is less. The impact on the financial statements of these differences to cost of goods sold is immaterial.

3. Deposits in Surplus Money Investment Fund

Investments consist of available non-inmate Fund moneys on deposit in the Surplus Money Investment Fund (SMIF). All earnings derived from investments of the SMIF are apportioned to the contributing fund as provided in the Government Code.

The Fund participates in the State of California's Pooled Money Investment Program (PMIP), whereby Fund cash on deposit in the State Treasury determined to be in excess of the Fund's immediate needs are transferred to the SMIF for investment purposes. The fair value of securities in the PMIP generally is based on quoted market prices. The State Treasurer's Office reports its investments at fair value.

4. Investment of Inmate Trust Moneys

Section 5008 of the California Penal Code states the Department's Director (Director) may combine the funds of any inmate with the funds of other inmates, for purposes of deposit or investment only. The code section further requires the Director to deposit interest or increment accruing to such investments in the Fund. The Director suspended this practice after inmates filed a 1996 lawsuit alleging that by failing to pay interest on funds deposited in their individual inmate trust accounts, the Director violated the Fifth Amendment Taking Clause and their equal protection rights.

In October 1998, the Director returned \$6,100,000 of inmate trust funds held by the Fund and invested in the Surplus Money Investment Fund to the respective accounts held at individual institutions. On March 22, 2000, the court granted a summary judgment that the prisoners' interest had not been taken without just compensation.

In subsequent litigation, the California Attorney General briefed the Ninth Circuit Court that the U.S. Supreme Court had dismissed a similar case on the basis that failure to pay interest on funds held in trust to the owner of the principal did not violate the Fifth Amendment Taking Clause. The Attorney General further argued that the cost of operating the trust fund system and/or the cost of distributing the interest to the individual accounts is more than the interest earned on the inmate trust funds.

In 2005, the parties settled the case, with the Director agreeing to provide interest on inmates' accounts through a proposed TRACS.

The Trust portion of TRACS has been designed to meet these goals: (1) manage accounting of money received on behalf of inmates, (2) manage accounting of money disbursed from inmate trust accounts, and (3) provide decentralized and centralized reporting of all trust account activities. TRACS has been implemented at all institutions since November 2008.

SUPPLEMENTAL INFORMATION

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California Department of Corrections and Rehabilitation, Inmate Welfare Fund
Supplemental Schedules of Revenues and Expenses by Institution
For the Fiscal Year Ended June 30, 2009

2008-09	ASP	CAL	CCC	CCI	CCWF	CEN	CIM	CIW	CMC	CMF
Operating Activity										
Net Canteen Sales	\$2,606,672	\$1,330,421	\$1,798,805	\$1,570,672	\$1,977,075	\$1,560,265	\$1,258,408	\$1,116,958	\$2,553,779	\$756,674
Less: Cost of Goods Sold	1,517,374	767,631	1,060,234	914,535	1,134,525	901,308	722,198	655,308	1,485,158	431,324
Gross Margin from Canteen Sales	1,089,298	562,790	738,571	656,137	842,550	658,957	536,210	461,650	1,068,621	325,350
Less: Personal Services	576,082	416,843	473,200	525,956	423,870	427,364	399,563	244,599	408,764	180,674
Supplies & Equipment	18,962	6,239	21,806	8,816	4,288	1,234	11,558	4,577	27,481	5,166
Inmate Pay	3,170	3,427	3,738	1,574	1,639	2,181	2,507	1,747	10,038	3,559
Total Canteen Expenses	598,214	426,509	498,744	536,346	429,797	430,779	413,628	250,923	446,283	189,399
Income From Canteen Sales	491,084	136,281	239,827	119,791	412,753	228,178	122,582	210,727	622,338	135,951
Photo Project Revenue	41,937	31,214	13,660	13,076	19,568	19,948	4,823	14,599	41,352	12,632
Less: Photo Project Supplies	13,516	7,941	4,751	4,434	3,402	9,496	2,166	7,051	17,497	1,887
Inmate Pay	-	-	63	-	-	-	-	202	270	-
Income From Photo Project	28,421	23,273	8,846	8,642	16,166	10,452	2,657	7,346	23,585	10,745
Handicraft Revenue	329	704	1,307	422	1,831	-	-	4,225	729	156
Less: Handicraft Supplies and Expenses	-	-	-	9	-	-	-	3,774	-	-
Equipment Purchases	-	87	-	-	-	-	-	-	-	-
Inmate Pay	-	387	-	24	267	-	-	574	-	-
Income (Loss) From Handicraft Project	329	230	1,307	389	1,564	-	-	(123)	729	156
Income From Operating Activity	519,834	159,784	249,980	128,822	430,483	238,630	125,239	217,950	646,652	146,852
Non-Operating Activity										
Non-Operating Revenue:										
Interest on Investments	9,188	5,052	7,124	5,514	7,796	5,114	4,754	4,257	9,771	2,424
Special Purchase Surcharge	2,801	2,138	17,990	2,605	4,709	1,210	984	3,035	9,607	2,655
Misc. Non-operating Revenue	871	9,132	1,373	2,007	7,569	3,889	2,622	6,012	22,063	2,723
Total Non-operating Revenue	12,860	16,322	26,487	10,126	20,074	10,213	8,360	13,304	41,441	7,802
Non-Operating Expenses:										
Trust Restitution Acctg and Canteen Sys.	76,856	38,864	53,492	46,217	57,479	45,632	36,252	33,031	75,270	21,781
Administrative Expenses	141,855	70,710	97,324	84,087	104,577	83,023	65,957	60,098	136,947	39,629
Audit Expenses	14,942	7,556	10,400	8,985	11,175	8,871	7,048	6,422	14,634	4,235
Inmate Benefits:										
Visitor Program - Friends Outside	120,252	69,076	98,002	89,382	67,906	83,267	100,936	42,474	107,611	50,353
Telephone-Visitor Hotline	1,079	620	879	802	609	747	906	381	965	452
Library	-	-	1,982	1,869	-	-	2,261	1,275	-	-
Awards	3,124	3,380	2,158	2,808	2,081	1,485	5,106	412	75	2,709
Other Goods	-	-	-	-	-	-	-	-	13,694	-
Movie Rental	11,170	10,025	12,980	11,880	9,200	11,000	10,920	-	5,418	9,686
Entertainment	-	-	-	-	-	-	-	234	193	-
Total Non-operating Expenses	369,278	200,231	277,217	246,030	253,027	234,025	229,386	144,327	354,807	128,845
Loss from Non-Operating Activity	(356,418)	(183,909)	(250,730)	(235,904)	(232,953)	(223,812)	(221,026)	(131,023)	(313,366)	(121,043)
Current Year Net Income (Loss)	163,416	(24,125)	(750)	(107,082)	197,530	14,818	(95,787)	86,927	333,286	25,809
Prior Year Adjustments	(777)	(3,020)	(1,734)	(5,694)	38	7,730	2,758	(7,227)	(1,048)	(917)
Total Net Income (Loss)	\$ 162,639	\$ (27,145)	\$ (2,484)	\$ (112,776)	\$ 197,568	\$ 22,548	\$ (93,029)	\$ 79,700	\$ 332,238	\$ 24,892

California Department of Corrections and Rehabilitation, Inmate Welfare Fund
Supplemental Schedules of Revenues and Expenses by Institution
For the Fiscal Year Ended June 30, 2009

2008-09	COR	CRC	CTF	CVSP	DVI	FSP	HDSP	ISP	KVSP	LAC
Operating Activity										
Net Canteen Sales	\$1,623,601	\$1,369,580	\$1,990,236	\$1,165,878	\$1,016,600	\$1,546,332	\$1,194,328	\$1,335,564	\$1,484,904	\$1,072,866
Less: Cost of Goods Sold	940,617	784,649	1,162,194	684,674	589,135	934,201	710,252	779,113	846,564	616,089
Gross Margin from Canteen Sales	682,984	584,931	828,042	481,204	427,465	612,131	484,076	556,451	638,340	456,777
Less: Personal Services	568,411	366,380	545,979	391,266	346,426	352,002	419,698	384,746	498,162	438,484
Supplies & Equipment	1,343	6,529	16,886	3,959	6,447	16,773	6,520	7,030	3,678	10,762
Inmate Pay	3,870	3,703	6,215	1,010	476	2,499	1,796	2,502	2,190	2,046
Total Canteen Expenses	573,624	376,612	569,080	396,235	353,349	371,274	428,014	394,278	504,030	451,292
Income From Canteen Sales	109,360	208,319	258,962	84,969	74,116	240,857	56,062	162,173	134,310	5,485
Photo Project Revenue	22,567	30,709	33,058	20,986	3,549	34,732	17,802	17,270	33,384	8,503
Less: Photo Project Supplies	14,700	4,570	10,603	8,106	1,773	11,550	1,817	8,084	15,160	4,378
Inmate Pay	302	-	645	-	-	36	204	-	80	-
Income From Photo Project	7,565	26,139	21,810	12,880	1,776	23,146	15,781	9,186	18,144	4,125
Handicraft Revenue	294	-	506	28	1,470	345	259	110	-	379
Less: Handicraft Supplies and Expenses	-	-	63	-	1,000	-	-	-	-	-
Equipment Purchases	-	-	-	-	-	-	-	-	-	-
Inmate Pay	-	-	155	-	194	553	-	-	-	-
Income (Loss) From Handicraft Project	294	-	288	28	276	(208)	259	110	-	379
Income From Operating Activity	117,219	234,458	281,060	97,877	76,168	263,795	72,102	171,469	152,454	9,989
Non-Operating Activity										
Non-Operating Revenue:										
Interest on Investments	6,231	5,041	6,622	3,841	3,876	6,019	4,635	5,043	5,424	4,398
Special Purchase Surcharge	3,484	1,537	5,620	1,402	2,286	2,163	3,610	951	2,286	1,768
Misc. Non-operating Revenue	2,734	370	14,919	509	3,735	4,040	459	2,272	1,119	1,474
Total Non-operating Revenue	12,449	6,948	27,161	5,752	9,897	12,222	8,704	8,266	8,829	7,640
Non-Operating Expenses:										
Trust Restitution Acctg and Canteen Sys.	47,577	39,443	58,354	34,238	29,852	47,212	35,798	39,076	42,824	31,099
Administrative Expenses	86,563	71,763	106,170	62,294	54,312	85,897	66,591	71,094	77,915	56,582
Audit Expenses	9,250	7,668	11,345	6,656	5,804	9,179	6,960	7,597	8,326	6,046
Inmate Benefits:										
Visitor Program - Friends Outside	93,618	75,949	108,666	61,214	62,994	67,543	72,554	76,394	80,333	82,064
Telephone-Visitor Hotline	840	681	975	549	565	606	651	685	721	736
Library	-	-	-	-	1,270	628	1,129	-	1,850	-
Awards	2,748	1,148	3,916	1,496	1,771	1,614	-	2,587	3,073	3,143
Other Goods	-	-	355	-	-	-	-	-	-	-
Movie Rental	9,581	11,440	12,756	10,570	7,000	9,967	11,302	12,440	11,550	11,000
Entertainment	-	-	590	700	-	-	-	-	-	-
Total Non-operating Expenses	250,177	208,092	303,127	177,717	163,568	222,646	194,985	209,873	226,592	190,670
Loss from Non-Operating Activity	(237,728)	(201,144)	(275,966)	(171,965)	(153,671)	(210,424)	(186,281)	(201,607)	(217,763)	(183,030)
Current Year Net Income (Loss)	(120,509)	33,314	5,094	(74,088)	(77,503)	53,371	(114,179)	(30,138)	(65,309)	(173,041)
Prior Year Adjustments	(2,302)	(2,390)	(1,628)	(67)	(2,946)	(1,391)	(2,803)	12,972	(2,620)	(1,721)
Total Net Income (Loss)	<u>\$ (122,811)</u>	<u>\$ 30,924</u>	<u>\$ 3,466</u>	<u>\$ (74,155)</u>	<u>\$ (80,449)</u>	<u>\$ 51,980</u>	<u>\$ (116,982)</u>	<u>\$ (17,166)</u>	<u>\$ (67,929)</u>	<u>\$ (174,762)</u>

California Department of Corrections and Rehabilitation, Inmate Welfare Fund
Supplemental Schedules of Revenues and Expenses by Institution
For the Fiscal Year Ended June 30, 2009

	MCSP	NKSP	PBSP	PVSP	RJD	SAC	SATF	SCC	SOL	SQ
Operating Activity										
Net Canteen Sales	\$1,411,235	\$1,221,687	\$963,505	\$1,540,391	\$1,418,734	\$868,284	\$2,135,471	\$1,830,662	\$2,011,082	\$1,551,637
Less: Cost of Goods Sold	823,655	695,586	564,680	910,314	858,894	506,369	1,237,858	1,027,897	1,174,377	920,892
Gross Margin from Canteen Sales	587,580	526,101	398,825	630,077	559,840	361,915	897,613	802,765	836,705	630,745
Less: Personal Services	415,122	431,060	363,585	385,797	414,956	314,102	701,646	424,723	529,354	578,938
Supplies & Equipment	465	12,500	3,683	9,930	7,784	8,835	12,966	22,385	6,762	6,743
Inmate Pay	4,376	2,451	1,741	3,698	3,219	2,139	2,589	1,350	2,152	2,705
Total Canteen Expenses	419,963	446,011	369,009	399,425	425,959	325,076	717,201	448,458	538,268	588,386
Income From Canteen Sales	167,617	80,090	29,816	230,652	133,881	36,839	180,412	354,307	298,437	42,359
Photo Project Revenue	21,354	5,036	9,569	31,678	11,785	19,465	33,902	18,849	33,541	15,155
Less: Photo Project Supplies	6,015	-	4,055	9,744	7,384	5,564	8,415	8,345	15,686	7,463
Inmate Pay	-	-	-	-	-	-	204	-	-	233
Income From Photo Project	15,339	5,036	5,514	21,934	4,401	13,901	25,283	10,504	17,855	7,459
Handicraft Revenue	21	57	183	1,633	-	468	440	2,493	1,254	2,135
Less: Handicraft Supplies and Expenses	-	-	-	-	-	-	-	-	-	1,188
Equipment Purchases	-	-	-	-	-	-	-	-	-	-
Inmate Pay	-	-	-	-	-	-	-	-	-	840
Income From Handicraft Project	21	57	183	1,633	-	468	440	2,493	1,254	107
Income From Operating Activity	182,977	85,183	35,513	254,219	138,282	51,208	206,135	367,304	317,546	49,925
Non-Operating Activity										
Non-Operating Revenue:										
Interest on Investments	5,023	4,361	3,391	5,941	5,219	3,279	7,957	6,426	7,931	6,068
Special Purchase Surcharge	2,843	813	3,718	5,412	665	2,800	6,635	10,633	4,784	2,545
Misc. Non-operating Revenue	2,117	656	4,687	2,636	2,326	1,750	1,208	2,898	7,433	4,202
Total Non-operating Revenue	9,983	5,830	11,796	13,989	8,210	7,829	15,800	19,957	20,148	12,815
Non-Operating Expenses:										
Trust Restitution Acctg and Canteen Sys.	41,779	35,199	28,479	45,962	43,438	25,542	62,679	52,164	59,097	46,547
Administrative Expenses	76,012	64,041	51,814	83,626	79,031	46,472	114,039	94,907	107,518	84,688
Audit Expenses	8,122	6,843	5,537	8,936	8,445	4,966	12,186	10,141	11,489	9,049
Inmate Benefits:										
Visitor Program - Friends Outside	60,703	90,124	56,533	86,877	76,378	51,984	120,962	100,804	97,129	86,976
Telephone-Visitor Hotline	545	810	507	779	685	466	1,085	904	871	780
Library	1,376	1,298	1,202	1,427	-	-	-	389	994	-
Awards	2,156	3,089	-	2,852	3,401	560	3,893	2,942	2,097	2,709
Other Goods	-	-	-	-	-	-	-	-	-	-
Movie Rental	10,470	10,648	9,600	11,427	11,589	9,952	12,328	12,210	10,967	10,744
Entertainment	-	-	-	-	-	-	-	-	-	-
Total Non-operating Expenses	201,163	212,052	153,672	241,886	222,967	139,942	327,172	274,461	290,162	241,493
Loss from Non-Operating Activity	(191,180)	(206,222)	(141,876)	(227,897)	(214,757)	(132,113)	(311,372)	(254,504)	(270,014)	(228,678)
Current Year Net Income (Loss)	(8,203)	(121,039)	(106,363)	26,322	(76,475)	(80,905)	(105,237)	112,800	47,532	(178,753)
Prior Year Adjustments	(1,898)	(1,514)	(569)	(1,701)	3,819	(296)	488	(137)	(860)	(547)
Total Net Income (Loss)	<u>\$ (10,101)</u>	<u>\$ (122,553)</u>	<u>\$ (106,932)</u>	<u>\$ 24,621</u>	<u>\$ (72,656)</u>	<u>\$ (81,201)</u>	<u>\$ (104,749)</u>	<u>\$ 112,663</u>	<u>\$ 46,672</u>	<u>\$ (179,300)</u>

California Department of Corrections and Rehabilitation, Inmate Welfare Fund
Supplemental Schedules of Revenues and Expenses by Institution
For the Fiscal Year Ended June 30, 2009

2008-09

Operating Activity

	SVSP	VSPW	WSP	COMBINED
Net Canteen Sales	\$1,049,284	\$1,689,111	\$1,497,832	\$49,518,533
Less: Cost of Goods Sold	595,476	973,679	871,443	28,798,203
Gross Margin from Canteen Sales	453,808	715,432	626,389	20,720,330
Less: Personal Services	390,585	340,760	434,710	14,113,807
Supplies & Equipment	274	19,627	15,282	317,290
Inmate Pay	1,860	1,599	1,776	91,542
Total Canteen Expenses	392,719	361,986	451,768	14,522,639
Income From Canteen Sales	61,089	353,446	174,621	6,197,691
Photo Project Revenue	9,959	25,504	3,196	674,362
Less: Photo Project Supplies	4,127	12,195	1,290	243,165
Inmate Pay	388	-	473	3,100
Income From Photo Project	5,444	13,309	1,433	428,097
Handicraft Revenue	380	1,198	104	23,460
Less: Handicraft Supplies and Expenses	-	-	-	6,034
Equipment Purchases	-	-	-	87
Inmate Pay	-	-	-	2,994
Income From Handicraft Project	380	1,198	104	14,345
Income From Operating Activity	66,913	367,953	176,158	6,640,133

Non-Operating Activity

Non-Operating Revenue:				
Interest on Investments	3,952	6,659	5,912	184,243
Special Purchase Surcharge	2,219	3,554	550	120,012
Misc. Non-operating Revenue	2,760	1,988	1,415	125,968
Total Non-operating Revenue	8,931	12,201	7,877	430,223
Non-Operating Expenses:				
Trust Restitution Acctg and Canteen Sys.	30,126	49,315	44,003	1,454,677
Administrative Expenses	54,813	89,724	80,061	2,650,134
Audit Expenses	5,857	9,587	8,555	282,812
Inmate Benefits:				
Visitor Program - Friends Outside	68,367	67,083	99,089	2,673,597
Telephone-Visitor Hotline	614	602	889	23,986
Library	-	-	-	18,950
Awards	2,430	-	2,265	73,228
Other Goods	357	-	-	14,406
Movie Rental	10,400	6,100	10,956	337,276
Entertainment	472	-	65	2,254
Total Non-operating Expenses	173,436	222,411	245,883	7,531,320
Loss from Non-Operating Activity	(164,505)	(210,210)	(238,006)	(7,101,097)
Current Year Net Income (Loss)	(97,592)	157,743	(61,848)	(460,964)
Prior Year Adjustments	(1,710)	1,200	1,243	(17,269)
Total Net Income (Loss)	\$ (99,302)	\$ 158,943	\$ (60,605)	\$ (478,233)

Institution Name Legend:

ASP	=	Avenal State Prison
CAL	=	Calipatria State Prison
CCC	=	California Correctional Center
CCI	=	California Correctional Institution
CCWF	=	Central California Women's Facility
CEN	=	Centinela State Prison
CIM	=	California Institution for Men
CIW	=	California Institution for Women
CMC	=	California Men's Colony
CMF	=	California Medical Facility
COR	=	Corcoran State Prison
CRC	=	California Rehabilitation Center
CTF	=	Correctional Training Facility
CVSP	=	Chuckawalla Valley State Prison
DVI	=	Deuel Vocational Institution
FSP	=	Folsom State Prison
HDSP	=	High Desert State Prison
ISP	=	Ironwood State Prison
KVSP	=	Kern Valley State Prison
LAC	=	California State Prison, Los Angeles Co
MCSP	=	Mule Creek State Prison
NKSP	=	North Kern State Prison
PBSP	=	Pelican Bay State Prison
PVSP	=	Pleasant Valley State Prison
RJD	=	R.J. Donovan Correctional Facility
SAC	=	California State Prison, Sacramento
SATF	=	Substance Abuse Treatment Facility, Corcoran
SCC	=	Sierra Conservation Center
SOL	=	California State Prison, Solano
SQ	=	San Quentin State Prison
SVSP	=	Salinas Valley State Prison
VSPW	=	Valley State Prison for Women
WSP	=	Wasco State Prison

California Department of Corrections and Rehabilitation, Inmate Welfare Fund
Supplemental Schedules of Revenues and Expenses by Institution
For the Fiscal Year Ended June 30, 2010

2009-2010

Operating Activity

	ASP	CAL	CCC	CCI	CCWF	CEN	CIM	CIW	CMC	CMF
Net Canteen Sales	\$2,751,090	\$1,389,512	\$1,719,304	\$1,673,578	\$1,879,441	\$1,654,719	\$1,139,426	\$1,157,832	\$2,541,723	\$740,833
Less: Cost of Goods Sold	1,603,992	813,683	1,016,812	968,194	1,090,465	973,046	650,137	677,843	1,480,353	431,135
Gross Margin from Canteen Sales	1,147,098	575,829	702,492	705,384	788,976	681,673	489,289	479,989	1,061,370	309,698
Less: Personal Services	540,152	431,459	452,164	455,593	364,172	385,038	352,654	231,683	419,104	204,674
Supplies & Equipment	26,851	7,599	10,533	14,318	3,322	164	4,359	5,544	27,872	9,360
Inmate Pay	3,421	3,105	3,968	1,628	2,524	2,307	1,444	2,957	9,221	3,503
Total Canteen Expenses	570,424	442,163	466,665	471,539	370,018	387,509	358,457	240,184	456,197	217,537
Income From Canteen Sales	576,674	133,666	235,827	233,845	418,958	294,164	130,832	239,805	605,173	92,161
Photo Project Revenue	39,785	25,113	14,139	12,541	17,741	19,081	4,590	20,254	33,623	6,835
Less: Photo Project Supplies	6,883	4,125	2,230	4,113	-	4,392	1,280	5,020	3,526	2,756
Inmate Pay	-	-	140	-	-	-	-	216	315	-
Income From Photo Project	32,902	20,988	11,769	8,428	17,741	14,689	3,310	15,018	29,782	4,079
Handicraft Revenue	-	118	490	-	285	-	-	722	-	-
Less: Handicraft Supplies and Expenses	-	135	-	-	-	-	-	-	-	-
Equipment Purchases	-	-	-	-	-	-	-	-	-	-
Inmate Pay	-	980	-	-	647	-	-	128	-	-
Income (Loss) From Handicraft Project	-	(997)	490	-	(362)	-	-	594	-	-
Income From Operating Activity	609,576	153,657	248,086	242,273	436,337	308,853	134,142	255,417	634,955	96,240

Non-Operating Activity

Non-Operating Revenue:										
Interest on Investments	3,377	1,716	2,210	2,059	2,383	2,116	1,314	1,441	3,228	931
Special Purchase Surcharge	2,546	2,376	13,286	2,458	4,344	1,381	1,223	3,533	11,997	1,840
Misc. Non-operating Revenue	4,369	7,105	4,258	3,755	10,101	1,568	4,370	6,226	9,260	1,292
Total Non-operating Revenue	10,292	11,197	19,754	8,272	16,828	5,065	6,907	11,200	24,485	4,063
Non-Operating Expenses:										
Trust Restitution Acctg and Canteen Sys.	-	-	-	-	-	-	-	-	-	-
Administrative Expenses	132,749	65,841	82,236	78,407	88,468	78,918	52,365	54,867	120,058	34,911
Audit Expenses	17,564	8,887	11,101	10,584	11,942	10,653	7,069	7,406	16,134	4,712
Inmate Benefits:										
Visitor Program - Friends Outside	100,630	65,241	88,534	86,678	62,580	74,366	89,880	41,591	99,887	46,402
Telephone-Visitor Hotline	993	644	874	855	617	734	887	410	986	458
Library	-	-	2,110	-	-	-	-	-	-	-
Awards	2,728	3,365	3,162	1,074	-	2,488	8,036	-	519	1,664
Other Goods	-	31	-	-	-	6,304	-	168	14,587	-
Movie Rental	11,100	10,330	12,320	10,724	10,200	10,990	9,920	7,800	3,330	10,200
Entertainment	-	-	-	-	-	-	-	-	196	-
Total Non-operating Expenses	265,764	154,339	200,337	188,322	173,807	184,453	168,157	112,242	255,697	98,347
Income (Loss) from Non-Operating Activity	(255,472)	(143,142)	(180,583)	(180,050)	(156,979)	(179,388)	(161,250)	(101,042)	(231,212)	(94,284)
Current Year Net Income (Loss)	354,104	10,515	67,503	62,223	279,358	129,465	(27,108)	154,375	403,743	1,956
Prior Year Adjustments	(17,488)	(23,593)	(10,418)	(12,950)	(12,818)	(17,428)	(6,581)	(9,419)	(42,741)	(14,043)
Total Net Income (Loss)	\$ 336,616	\$ (13,078)	\$ 57,085	\$ 49,273	\$ 266,540	\$ 112,037	\$ (33,689)	\$ 144,956	\$ 361,002	\$ (12,087)

California Department of Corrections and Rehabilitation, Inmate Welfare Fund
Supplemental Schedules of Revenues and Expenses by Institution
For the Fiscal Year Ended June 30, 2010

2009-2010

Operating Activity	COR	CRC	CTF	CVSP	DVI	FSP	HDSP	ISP	KVSP	LAC
Net Canteen Sales	\$1,584,763	\$1,478,314	\$2,131,449	\$1,320,051	\$956,386	\$1,556,952	\$1,091,335	\$1,502,009	\$1,472,970	\$1,216,722
Less: Cost of Goods Sold	924,236	852,740	1,250,753	769,932	569,657	950,500	656,717	873,919	850,547	699,305
Gross Margin from Canteen Sales	660,527	625,574	880,696	550,119	386,729	606,452	434,618	628,090	622,423	517,417
Less: Personal Services	534,669	339,372	491,415	325,193	274,693	379,945	364,780	378,234	457,414	351,728
Supplies & Equipment	34,877	7,493	26,712	48	7,228	8,026	2,559	4,495	6,852	9,987
Inmate Pay	2,952	3,622	6,362	1,612	2,383	3,081	1,574	2,665	3,139	1,611
Total Canteen Expenses	572,498	350,487	524,489	326,853	284,304	391,052	368,913	385,394	467,405	363,326
Income From Canteen Sales	88,029	275,087	356,207	223,266	102,425	215,400	65,705	242,696	155,018	154,091
Photo Project Revenue	15,416	18,977	21,064	19,197	3,874	26,786	14,032	16,335	33,935	15,894
Less: Photo Project Supplies	2,528	3,025	4,567	4,222	1,135	5,276	5,430	2,336	-	1,939
Inmate Pay	164	-	567	-	-	-	206	-	109	-
Income From Photo Project	12,724	15,952	15,930	14,975	2,739	21,510	8,396	13,999	33,826	13,955
Handicraft Revenue	-	-	468	40	1,262	-	-	-	-	167
Less: Handicraft Supplies and Expenses	-	-	-	-	1,875	-	-	-	-	-
Equipment Purchases	-	-	-	-	-	-	-	-	-	-
Inmate Pay	-	-	204	-	936	547	-	-	-	-
Income (Loss) From Handicraft Project	-	-	264	40	(1,549)	(547)	-	-	-	167
Income From Operating Activity	100,753	291,039	372,401	238,281	103,615	236,363	74,101	256,695	188,844	168,213
Non-Operating Activity										
Non-Operating Revenue:										
Interest on Investments	1,966	1,803	2,572	1,605	1,214	2,018	1,327	1,891	1,821	1,485
Special Purchase Surcharge	3,553	1,447	4,239	1,170	1,099	1,673	3,708	1,208	3,153	1,747
Misc. Non-operating Revenue	1,449	4,113	9,677	3,333	1,226	1,901	1,020	2,153	1,690	3,083
Total Non-operating Revenue	6,968	7,363	16,488	6,108	3,539	5,592	6,055	5,252	6,664	6,315
Non-Operating Expenses:										
Trust Restitution Acctg and Canteen Sys.	-	-	-	-	-	-	-	-	-	-
Administrative Expenses	74,945	68,768	100,931	62,387	46,060	76,888	54,290	70,428	68,945	56,422
Audit Expenses	10,116	9,283	13,624	8,421	6,217	10,379	7,168	9,507	9,307	7,616
Inmate Benefits:										
Visitor Program - Friends Outside	82,781	68,179	98,727	57,801	58,946	63,075	69,386	63,184	75,789	70,685
Telephone-Visitor Hotline	817	673	974	570	582	622	685	623	748	697
Library	-	-	-	61	1,374	-	1,624	-	1,850	1,587
Awards	2,894	1,192	2,816	1,414	1,053	1,795	-	2,151	1,602	2,855
Other Goods	-	257	445	-	-	-	47	5,465	-	-
Movie Rental	12,385	11,440	11,495	10,800	9,600	10,480	10,981	11,810	11,120	11,580
Entertainment	-	-	758	-	-	-	-	-	-	-
Total Non-operating Expenses	183,938	159,792	229,770	141,454	123,832	163,239	144,181	163,168	169,361	151,442
Income (Loss) from Non-Operating Activity	(176,970)	(152,429)	(213,282)	(135,346)	(120,293)	(157,647)	(138,126)	(157,916)	(162,697)	(145,127)
Current Year Net Income (Loss)	(76,217)	138,610	159,119	102,935	(16,678)	78,716	(64,025)	98,779	26,147	23,086
Prior Year Adjustments	(13,104)	(8,544)	(19,557)	(9,947)	(16,406)	(13,321)	(5,660)	(12,899)	(10,635)	(5,529)
Total Net Income (Loss)	\$ (89,321)	\$ 130,066	\$ 139,562	\$ 92,988	\$ (33,084)	\$ 65,395	\$ (69,685)	\$ 85,880	\$ 15,512	\$ 17,557

California Department of Corrections and Rehabilitation, Inmate Welfare Fund
Supplemental Schedules of Revenues and Expenses by Institution
For the Fiscal Year Ended June 30, 2010

2009-2010

Operating Activity	MCSP	NKSP	PBSP	PVSP	RJD	SAC	SATF	SCC	SOL	SQ
Net Canteen Sales	\$1,560,862	\$1,331,819	\$912,252	\$1,484,448	\$1,413,778	\$826,578	\$2,056,583	\$1,799,128	\$2,098,036	\$1,500,034
Less: Cost of Goods Sold	917,525	755,617	534,235	883,795	862,486	485,379	1,196,061	1,036,056	1,225,188	889,781
Gross Margin from Canteen Sales	643,337	576,202	378,017	600,653	551,292	341,199	860,522	763,072	872,848	610,253
Less: Personal Services	399,353	380,101	293,995	285,730	369,121	280,936	662,360	417,738	486,928	465,091
Supplies & Equipment	1,349	7,068	2,932	7,527	7,947	7,971	13,377	7,494	1,948	11,741
Inmate Pay	4,109	2,231	1,348	2,946	3,068	2,175	3,077	1,664	2,649	2,606
Total Canteen Expenses	404,811	389,400	298,275	296,203	380,136	291,082	678,814	426,896	491,525	479,438
Income From Canteen Sales	238,526	186,802	79,742	304,450	171,156	50,117	181,708	336,176	381,323	130,815
Photo Project Revenue	23,507	4,569	5,458	28,399	14,717	12,825	23,636	17,826	25,901	12,018
Less: Photo Project Supplies	5,187	1,814	1,521	4,349	2,106	2,787	4,560	3,094	5,145	9,264
Inmate Pay	-	-	-	-	-	-	134	-	-	82
Income From Photo Project	18,320	2,755	3,937	24,050	12,611	10,038	18,942	14,732	20,756	2,672
Handicraft Revenue	-	-	-	208	-	-	-	352	69	1,282
Less: Handicraft Supplies and Expenses	-	-	-	-	-	-	-	-	-	1,527
Equipment Purchases	-	-	-	-	-	-	-	-	-	-
Inmate Pay	-	-	-	-	-	-	-	-	-	563
Income (Loss) From Handicraft Project	-	-	-	208	-	-	-	352	69	(808)
Income From Operating Activity	256,846	189,557	83,679	328,708	183,767	60,155	200,650	351,260	402,148	132,679
Non-Operating Activity										
Non-Operating Revenue:										
Interest on Investments	1,943	1,610	1,149	1,929	1,912	1,059	2,537	2,223	2,632	1,957
Special Purchase Surcharge	2,136	924	4,159	4,979	681	1,652	5,283	8,764	5,842	1,392
Misc. Non-operating Revenue	1,431	1,166	3,506	4,813	1,687	830	2,938	1,848	1,930	1,527
Total Non-operating Revenue	5,510	3,700	8,814	11,721	4,280	3,541	10,758	12,835	10,404	4,876
Non-Operating Expenses:										
Trust Restitution Acctg and Canteen Sys.	-	-	-	-	-	-	-	-	-	-
Administrative Expenses	74,285	61,110	43,244	71,567	69,731	39,310	96,982	83,818	99,009	72,064
Audit Expenses	10,027	8,249	5,837	9,661	9,413	5,306	13,091	11,314	13,365	9,728
Inmate Benefits:										
Visitor Program - Friends Outside	58,961	82,811	54,166	76,130	74,459	46,077	108,410	86,941	78,419	81,574
Telephone-Visitor Hotline	582	817	534	751	735	455	1,070	858	774	805
Library	1,376	-	1,162	-	-	894	-	-	-	1,169
Awards	2,108	2,469	-	4,846	3,590	1,424	3,768	3,978	-	2,071
Other Goods	-	-	-	-	-	-	-	-	-	-
Movie Rental	10,695	11,460	9,600	11,360	11,410	8,115	12,475	10,300	11,250	11,615
Entertainment	-	-	-	-	-	-	-	-	-	-
Total Non-operating Expenses	158,034	166,916	114,543	174,315	169,338	101,581	235,796	197,209	202,817	179,026
Income (Loss) from Non-Operating Activity	(152,524)	(163,216)	(105,729)	(162,594)	(165,058)	(98,040)	(225,038)	(184,374)	(192,413)	(174,150)
Current Year Net Income (Loss)	104,322	26,341	(22,050)	166,114	18,709	(37,885)	(24,388)	166,886	209,735	(41,471)
Prior Year Adjustments	(9,225)	(11,920)	(8,509)	(8,740)	(35,878)	(8,386)	(20,926)	(22,007)	(14,300)	(13,133)
Total Net Income (Loss)	<u>\$ 95,097</u>	<u>\$ 14,421</u>	<u>\$ (30,559)</u>	<u>\$ 157,374</u>	<u>\$ (17,169)</u>	<u>\$ (46,271)</u>	<u>\$ (45,314)</u>	<u>\$ 144,879</u>	<u>\$ 195,435</u>	<u>\$ (54,604)</u>

California Department of Corrections and Rehabilitation, Inmate Welfare Fund
Supplemental Schedules of Revenues and Expenses by Institution
For the Fiscal Year Ended June 30, 2010

2009-2010

Operating Activity

	SVSP	VSPW	WSP	COMBINED
Net Canteen Sales	\$962,977	\$1,449,582	\$1,617,995	\$49,972,481
Less: Cost of Goods Sold	<u>548,038</u>	<u>829,444</u>	<u>950,644</u>	<u>29,218,215</u>
Gross Margin from Canteen Sales	414,939	620,138	667,351	20,754,266
Less: Personal Services	336,684	336,722	399,784	12,848,679
Supplies & Equipment	276	6,693	11,323	305,845
Inmate Pay	<u>1,646</u>	<u>1,809</u>	<u>1,784</u>	<u>94,191</u>
Total Canteen Expenses	<u>338,606</u>	<u>345,224</u>	<u>412,891</u>	<u>13,248,715</u>
Income From Canteen Sales	76,333	274,914	254,460	7,505,551
Photo Project Revenue	11,826	26,394	2,771	589,059
Less: Photo Project Supplies	4,735	14,046	288	123,679
Inmate Pay	<u>324</u>	<u>-</u>	<u>345</u>	<u>2,602</u>
Income From Photo Project	6,767	12,348	2,138	462,778
Handicraft Revenue	-	406	-	5,869
Less: Handicraft Supplies and Expenses	-	-	-	3,537
Equipment Purchases	-	-	-	-
Inmate Pay	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,005</u>
Income (Loss) From Handicraft Project	<u>-</u>	<u>406</u>	<u>-</u>	<u>(1,673)</u>
Income From Operating Activity	83,100	287,668	256,598	7,966,656
Non-Operating Activity				
Non-Operating Revenue:				
Interest on Investments	1,164	1,843	2,018	62,453
Special Purchase Surcharge	2,185	3,318	151	109,447
Misc. Non-operating Revenue	<u>2,394</u>	<u>1,404</u>	<u>1,829</u>	<u>109,252</u>
Total Non-operating Revenue	5,743	6,565	3,998	281,152
Non-Operating Expenses:				
Trust Restitution Acctg and Canteen Sys.	-	-	-	-
Administrative Expenses	44,425	67,221	76,949	2,368,599
Audit Expenses	5,997	9,074	10,387	319,139
Inmate Benefits:				
Visitor Program - Friends Outside	64,390	61,219	93,391	2,431,290
Telephone-Visitor Hotline	635	604	917	23,986
Library	1,495	-	-	14,702
Awards	2,034	1,793	1,913	70,802
Other Goods	435	-	-	27,739
Movie Rental	10,200	9,400	11,410	347,895
Entertainment	<u>476</u>	<u>-</u>	<u>65</u>	<u>1,495</u>
Total Non-operating Expenses	<u>130,087</u>	<u>149,311</u>	<u>195,032</u>	<u>5,605,647</u>
Income (Loss) from Non-Operating Activity	(124,344)	(142,746)	(191,034)	(5,324,495)
Current Year Net Income (Loss)	(41,244)	144,922	65,564	2,642,161
Prior Year Adjustments	<u>(6,528)</u>	<u>(9,467)</u>	<u>(11,339)</u>	<u>(463,439)</u>
Total Net Income (Loss)	<u>\$ (47,772)</u>	<u>\$ 135,455</u>	<u>\$ 54,225</u>	<u>\$ 2,178,722</u>

Institution Name Legend:

ASP	=	Avenal State Prison
CAL	=	Calipatria State Prison
CCC	=	California Correctional Center
CCI	=	California Correctional Institution
CCWF	=	Central California Women's Facility
CEN	=	Centinel State Prison
CIM	=	California Institution for Men
CIW	=	California Institution for Women
CMC	=	California Men's Colony
CMF	=	California Medical Facility
COR	=	Corcoran State Prison
CRC	=	California Rehabilitation Center
CTF	=	Correctional Training Facility
CVSP	=	Chuckawalla Valley State Prison
DVI	=	Deuel Vocational Institution
FSP	=	Folsom State Prison
HDSP	=	High Desert State Prison
ISP	=	Ironwood State Prison
KVSP	=	Kern Valley State Prison
LAC	=	California State Prison, Los Angeles Co
MCSP	=	Mule Creek State Prison
NKSP	=	North Kern State Prison
PBSP	=	Pelican Bay State Prison
PVSP	=	Pleasant Valley State Prison
RJD	=	R.J. Donovan Correctional Facility
SAC	=	California State Prison, Sacramento
SATF	=	Substance Abuse Treatment Facility, Corcoran
SCC	=	Sierra Conservation Center
SOL	=	California State Prison, Solano
SQ	=	San Quentin State Prison
SVSP	=	Salinas Valley State Prison
VSPW	=	Valley State Prison for Women
WSP	=	Wasco State Prison

ACCOUNTING SERVICES

P.O. Box 187019
Sacramento, CA 95818-7019



July 27, 2011

David Botelho, Chief
Office of State Audits and Evaluation
Department of Finance
915 L Street, 6th Floor
Sacramento, CA 95814

Dear Mr. Botelho:

The California Department of Corrections and Rehabilitation (CDCR) is submitting this letter in response to the Department of Finance's (DOF) draft audit report entitled *California Department of Corrections and Rehabilitation, Combined Inmate Welfare Fund for Fiscal Years Ended June 30, 2009 and June 30, 2010*.

CDCR is in agreement with the findings and recommendations. As we continue through the transitional phase within our automated accounting system we are identifying inefficiencies and taking appropriate steps to bring the accounting records into balance. CDCR will adjust the financial statements based on recommendations from DOF.

We would like to thank DOF for their professionalism and continued guidance in improving our operations. If you or your staff have any questions, please contact Michele Gomez-Essex, Manager, Inmate Accounting Branch, at (916) 255-1064 or Michele.Gomez-Essex@cdcr.ca.gov.

Original signed by:

GAYLE FIFIELD
Associate Director (A)
Accounting Services

cc: Martin Hoshino, Undersecretary, Administration & Offender Services
Scott Carney, Director, Division of Administrative Services
Georgia Johas, Deputy Director (A), Financial Services
Michele Gomez-Essex, Manager, Inmate Accounting Branch