



Transmitted via e-mail

April 20, 2012

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

Dear Ms. Harman:

Final Report—Leo Chesney Female Community Correctional Facility Close-Out Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its close-out audit of the Leo Chesney Female Community Correctional Facility, contract R05.005, for the period October 1, 2008 through September 30, 2011.

The enclosed report is for your information and use. Because there were no audit observations or issues requiring a response, we are issuing the report as final. This report will be placed on our website.

We appreciate the assistance and cooperation of The GEO Group, Inc. 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: Ms. Lydia Romero, Chief Deputy Warden, Contract Beds Unit, California Department of Corrections and Rehabilitation
Mr. James Nuehring, Associate Warden, Contract Beds Unit, California Department of Corrections and Rehabilitation
Ms. Mercedes Balcazar, Staff Services Manager I, Contract Beds Unit, California Department of Corrections and Rehabilitation
Mr. Brian Evans, Senior Vice President, Chief Financial Officer, The GEO Group, Inc.
Mr. Ronald A. Brack, Vice President, Chief Accounting Officer and Controller, The GEO Group, Inc.
Mr. James "Chuck" Hill, Director of Business Management, Western Region Office, The GEO Group, Inc.
Ms. Cheryl Nelson, Director of Contract Compliance, Western Regional Office, The GEO Group, Inc.

Audit Report

Leo Chesney Female
Community Correctional Facility
Contract R05.005
For the Period October 1, 2008
through September 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

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

You can contact our office at:

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

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 Cornell Companies, Inc. (Cornell), for the operation of the Leo Chesney Female Community Correctional Facility (Facility). The GEO Group, Inc. (GEO) acquired Cornell on April 16, 2010 and assumed the operations of the Facility.

On July 5, 2011, Corrections provided GEO the required 60 day notice of intent to terminate contract R05.005 under which the Facility is administered. Accordingly, the contract was terminated and the Facility closed effective September 30, 2011.

Contract R05.005 requires the Facility to account for its funds separately from its general operations. Below is a description of each fund/account held by the Facility:

- *Inmate Welfare Fund (IWF)*—A fund operated for the benefit and welfare of inmates who are under the jurisdiction of Corrections.
- *Inmate Restitution Account (IRA)*—Funds collected from inmate accounts and held in trust for Corrections pursuant to Penal Code section 2085.5.
- *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 R05.005 between Corrections and GEO for the period October 1, 2008¹ through September 30, 2011 for IWF and July 1, 2010² through September 30, 2011 for IRA. Our review focused on the ending balances for IWF and IRA. The audit objectives were to:

- Determine whether the IWF financial report accurately represents revenues received and expenditures incurred.
- Determine whether the IRA report accurately represents restitution and fees collected and remitted to Corrections.
- Review the activities and contract compliance of IWF and IRA.
- Determine the IWF and IRA ending balance.

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 IWF balance was accurate, complete, and proper, 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 fund in accordance with contract requirements.
- Reviewed the accounting records, vendor invoices, and 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 accurately reported.
- Identified and assessed whether IWF transfers that occurred were appropriate.

To determine whether the IRA ending balance was accurate, complete, and remitted to Corrections, we performed the following procedures:

- Interviewed key personnel to obtain an understanding of account-related internal controls.
- Reviewed Statements of Restitution Obligations, inmate trust account deductions, and submission of funds collected to Corrections.

¹ Date of Finance's last audit.

² Account start date.

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

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

The results of the audit are based on our review of documentation and other information made available to us. The audit was conducted from December 2011 through April 2012.

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 ending balances for the Inmate Welfare Fund and Inmate Restitution Account are presented in Tables 1 and 2.

Table 1: Inmate Welfare Fund Close-Out Balance

Inmate Welfare Fund For the Period October 1, 2008 through September 30, 2011	
Beginning Fund Balance as of October 1, 2008	\$35,373 ¹
Add: Revenues	397,899
Less: Expenditures	(433,272)
Ending Fund Balance as of September 30, 2011	\$ 0

Table 2: Inmate Restitution Account Close-Out Balance

Inmate Restitution Account For the Period July 1, 2010 through September 30, 2011	
Beginning Account Balance as of July 1, 2010	\$ 0
Add: Restitution and Fees Collected	57,362
Less: Restitution and Fees Remitted to Corrections	(57,362)
Ending Account Balance as of September 30, 2011	\$ 0

¹ The beginning balance includes \$5,603 in unremitted commissary commissions due to IWF from ITF. This issue was identified in Finance's audit report dated June 15, 2009 and remained uncorrected.

Inmate Trust Fund (ITF):

The review of the ITF 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 on for accuracy and completeness. During our audit, we did not find any dormant accounts as of December 27, 2011, the date of final payment to Corrections on outstanding dormant accounts.

Table 3: Schedule of Inmate Trust Fund (Unaudited)

Inmate Trust Fund For the Period October 1, 2008 through September 30, 2011	
Category	Reported
Beginning Fund Balance as of October 1, 2008	\$112,153
Deposits	824,957
Disbursements	(937,110)
Ending Fund Balance as of September 30,2011	\$ 0