



October 27, 2009

Mr. Kenneth McMinn, Facility Director  
Taft Community Correctional Facility  
330 Commerce Way  
Taft, CA 93268

Dear Mr. McMinn:

**Final Audit Report—Taft Community Correctional Facility, Contract R96.1591.105**

The Department of Finance, Office of State Audits and Evaluations, has completed its fiscal compliance audit of the Taft Community Correctional Facility (Facility) for the period July 1, 2005 through December 31, 2008.

The enclosed report is for your information and use. The draft report was issued on September 17, 2009, and the Facility's response to the draft report required further analysis. As a result of our analysis, changes were made to the Executive Summary, Background, Finding 4 to provide further clarification.

Please submit an updated corrective action plan to the California Department of Corrections and Rehabilitation, Community Correctional Facilities Administration (Corrections), within 30 days of receipt of this report.

In accordance with Finance's policy of increased transparency, this report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, Corrections will 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 assistance and cooperation of the Facility. If you have any questions regarding this report, please contact Frances Parmelee, Manager, or Osman Sanneh, 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. Robert T. Gorson, City Manager, City of Taft  
Ms. Teresa C. Statler, Finance Director, City of Taft  
Ms. Laura Dillingham, Facility Manager, Taft Community Correctional Facility  
Mr. Kevin R. Chappell, Chief (A), Community Correctional Facilities Administration,  
California Department of Corrections and Rehabilitation  
Mr. Terry Dickinson, Correctional Administrator, Community Correctional Facilities  
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Administration, California Department of Corrections and Rehabilitation  
Mr. Renato Araza, Program Analyst, Community Correctional Facilities Administration,  
California Department of Corrections and Rehabilitation

A FISCAL COMPLIANCE AUDIT

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Taft Community Correctional Facility  
Contract R96.1591.105  
For the Period July 1, 2005  
through December 31, 2008

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

**MEMBERS OF THE TEAM**

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

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## EXECUTIVE SUMMARY

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The California Department of Corrections and Rehabilitation (Corrections) contracted with the City of Taft (City) for operation of the Taft Community Correctional Facility (Facility). The City is responsible for providing inmate housing, sustenance, and coordinating inmate activities within the Facility. The Facility is located in Taft, California, and is designed to accommodate an average daily population of 442 male inmates.

Corrections requested the Department of Finance, Office of State Audits and Evaluations (Finance), to perform a fiscal compliance audit of contract R96.1591.105.

### **Review Results:**

- The Facility's security staffing does not meet the minimum requirements per the contract.
- The City inappropriately charged Corrections \$114,233 in "cash flow interest" during the three-year contract period under review.
- The City allocated \$12,276 of unallowable general government costs (City Council, City Attorney, and City Clerk costs) to the Inmate Welfare Fund (IWF).
- The IWF is not self-sustaining. During this audit period, the IWF cumulatively incurred a \$400,356 operating loss that was subsidized by transfers from the Inmate Telephone Revenue Fund.
- Unallowable Equipment Replacement Fund expenditures of \$5,786 were indentified.
- The Facility purchases equipment from non-Prison Industry Authority vendors without Corrections prior approval.

For further details, refer to the *Findings and Recommendations* section of this report.

# 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.

Section 6256 of the Penal Code 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 Taft (City) for operation of the Taft Community Correctional Facility (Facility).

As stipulated by contract R96.1591.105 (contract), the Facility's funding is a combination of flat rate expenditure reimbursement and per diem funding. Contract funds are used for the expenditure categories as shown in Appendix A. Table 1 illustrates the contract's allotments by fiscal year.

Table 1: Contract Funding by Fiscal Year

Fiscal Year	Total Funding
2005-06	\$ 7,041,931
2006-07	8,577,789
2007-08	8,821,023
<b>Total</b>	<b>\$ 24,440,743</b>

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

- *Inmate Welfare Fund*—A fund operated for the benefit and welfare of inmates who are under the jurisdiction of Corrections.
- *Inmate Trust Fund*—A fund that accounts for moneys belonging to inmates through work performed or money received from family or friends.
- *Telephone Revenue Fund*—Special program funds received for inmate telephone services designed for specific activities, as outlined in the contract.
- *Equipment Replacement Fund*—Contract funds allocated for the replacement of Facility equipment.
- *Debt Service Fund*—Accounts for the debt service on outstanding bonds.

For purposes of this report, all five funds will collectively be referred to as *funds*.

## SCOPE AND OBJECTIVES

Under an interagency agreement with Corrections, the Department of Finance, Office of State Audits and Evaluations (Finance), performed a fiscal compliance audit of the contract between the City and Corrections. The audit objectives were to:

- Determine whether the Facility's cost reports accurately represent revenue received and expenditures incurred for the period July 1, 2005 through June 30, 2008.
- Determine whether the Facility's internal control allows for the accurate and timely development of cost reporting data and adequate safeguarding of state assets.
- Determine the Facility's compliance with the contract's fiscal and reporting requirements.
- Determine if the Facility had implemented corrective action for findings reported in Finance's previous audit report dated May 11, 2006.
- Review the activities and contract compliance of the funds for the period April 1, 2006 through December 31, 2008.

## METHODOLOGY

In order to determine whether the Facility's cost reports are accurate, information reported on the cost reports was traced to the Facility's general ledger and subsidiary ledgers. Revenue and expenditures reported in the Facility's general ledger were assessed for reasonableness. Additionally, a sample of receipts and disbursements was selected and traced to supporting documentation. Our results are presented in Appendix A.

To ensure the Facility maintains an effective internal control system, an understanding of the Facility's internal control was obtained through inquiries and observations of Facility staff. Because the City performs certain accounting services for the Facility, the scope of our work also included a review of relevant City controls and procedures.

A selected sample of receipts and disbursements was traced to supporting documentation to determine the Facility's compliance with the contract's fiscal and reporting requirements. A review of the contract agreement, Corrections' *Department Operations Manual*, and the Financial Management Handbook for Public Community Correctional Facilities dated July 1989 (Handbook) was performed to determine that selected items met the applicable requirements.

To determine if the Facility implemented corrective action for the prior audit findings, we reviewed the prior audit report dated May 11, 2006, interviewed Facility and City staff, and reviewed the current processes and documentation.

The funds were reviewed for completeness and propriety. Our review included the following:

- General internal control assessment.
- Review of the Facility's general ledger and/or subsidiary ledgers.
- Identification of fund transfers.
- Determination of whether transfers met eligibility requirements.
- Assessment of fund disbursements.
- Investigations of unusual transactions.
- Verification that the Facility maintained the funds in accordance with contract requirements.

Findings are presented in the *Findings and Recommendations* section of this report. Immaterial, non-reportable issues and observations were discussed with Facility and City representatives. Other observations requiring Corrections' attention are presented in the *Other Identified Observations* section of this report. For informational purposes only, Appendix B presents the statements of fund balance for each of the funds, except for the Inmate Trust Fund.

Recommendations were developed based on contract requirements, guidelines set forth in the Handbook, and other relevant criteria. Fieldwork was conducted during March 2009 through August 2009.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to provide an independent assessment of compliance with the contract, to provide information to improve accountability, and to facilitate decision-making by parties with responsibility to oversee or initiate corrective action. Because our objective was not to perform a financial statement audit, we do not express an opinion on the financial information presented in the Appendices. Furthermore, our evaluation of internal control and tests of compliance was not to provide assurance on the Facility's internal control as a whole, or to provide an opinion on compliance. Accordingly, we do not provide such assurance or express such an opinion.

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

# FINDINGS AND RECOMMENDATIONS

**FINDING 1                      Minimum Security Staffing Requirements Not Met**

Condition:                      The Taft Community Correctional Facility (Facility) failed to meet security staffing requirements. Based on a representative sample of quarterly cost reports, we determined the Facility consistently maintained 6 to 8 (12 percent to 16 percent) fewer correctional officers than required by the contract.

**Table 2: Analysis of Contract Requirements versus Reported Staffing**

	Q1 2005-06	Q3 2005-06	Q2 2006-07	Q1 2007-08	Q4 2007-08
Per the Contract:	50.6	50.6	50.6	57.4	57.4
Per the Quarterly Cost Reports:	42.9	44.4	42.2	50.6	50.0
Staffing Difference:	(7.7)	(6.2)	(8.4)	(6.8)	(7.4)
Percent Difference:	(15%)	(12%)	(16%)	(12%)	(13%)

During the third quarter of fiscal year 2006-07, the contract staffing level was increased by 6.75 correctional officers in order to accommodate 80 new inmates. Although the Facility hired additional officers, the understaffing level remained the same.

*We reported a similar condition in our prior audit report dated May 2006.*

Criteria:                      The contract's Exhibit B.1 delineates the staffing paid by the California Department of Corrections and Rehabilitation (Corrections). The contract's flat rate is determined by the budgeted expenses which reflect the minimum staffing requirements.

Recommendation:            Comply with the contract's minimum staffing requirements.

**FINDING 2                      Inappropriate Interest Charges**

Condition:                      The City of Taft (City) inappropriately charged \$114,233 in "cash flow interest" to the Facility. The City calculated the "cash flow interest" based on the time elapsed between the expenditure of Facility costs and the receipt of payments from Corrections.

**Table 3: Cash Flow Interest Charged Per Fiscal Year**

2005-06	\$ 29,004
2006-07	44,820
2007-08	<u>40,409</u>
<b>Total</b>	<b><u>\$114,233</u></b>

Criteria: "Cash flow interest" is not addressed in the contract. Instead, the contract, Part IV, Section 17(e) 4, Invoicing and Payment, provides contract payments shall be made in accordance with Section 926.17 of the Government Code.

Section 926.17 of the Government Code has since been superseded by the State Prompt Payment Act which states, "It is the intent of the Legislature that state agencies pay properly submitted, undisputed invoices within 45 days of receipt, or automatically calculate and pay the appropriate late payment penalties as specified in this chapter. The state agency shall pay a penalty at a rate of 1 percent above the rate accrued on June 30 of the prior year by the Pooled Money Investment Account, not to exceed a rate of 15 percent..."

Recommendations: Revise the annual cost reports to exclude "cash flow interest" and include interest penalties, if any. Resubmit the corrected reports and based on the revised cost reports, remit all inappropriately claimed interest charges to Corrections.

**FINDING 3 Unallowable General Government Costs Claimed**

Condition: The City allocated \$12,276 of unallowable general government costs, such as City Council, City Attorney, and City Clerk costs, to the Inmate Welfare Fund (IWF).

**Table 4: Summary of General City Government Costs Allocated to IWF**

	2005-06	2006-07	2007-08	Total
City Council	\$1,673	\$1,410	\$1,036	\$4,119
City Attorney	1,502	1,002	913	3,417
City Clerk	<u>1,507</u>	<u>,638</u>	<u>1,595</u>	<u>4,740</u>
<b>Unallowable Costs</b>	<b><u>\$4,682</u></b>	<b><u>\$4,050</u></b>	<b><u>\$3,544</u></b>	<b><u>\$12,276</u></b>

Although it may be suitable to allocate the City's general government costs among City operations for internal purposes, general government costs are unallowable and unallocable as overhead charges to programs funded by intergovernmental grants and contracts.

Criteria: The authoritative standard for governmental cost allocation, OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments Attachment B, Section 19a (2) states, "The general cost of government are unallowable, including salaries and other expenses of State Legislators,

tribal councils, or similar local government bodies, such as county supervisors, city, school boards, etc., whether incurred for the purposes of legislation or executive direction.”

Section III C.10 of the Financial Management Handbook (Handbook), states administrative overhead costs incurred by the administrative branch of the organization for services provided to the contracted program must be measurable and applicable to the contracted facility program.

Recommendations: Reimburse the IWF \$12,276 for unallowable general government costs.

Eliminate unallowable general city government costs from the cost allocation plans used to allocate administrative costs to intergovernmental contracts.

#### **FINDING 4 Inmate Welfare Fund is not Self-Sustaining**

Condition: The Facility’s IWF incurred operating losses of \$84,904, \$119,833, \$125,645, and \$69,974 for fiscal years 2005-06, 2006-07, 2007-08, and for the 6 months ending December 31, 2008, respectively. These losses—largely due to low canteen prices—were subsidized by transfers from the Inmate Telephone Revenue Fund.

Eleven percent of the total canteen items are sold at cost without mark-up. The Facility management maintains a low canteen merchandise mark-up policy in order to satisfy the inmate population. However, the resulting operating losses were not approved by the Central Office IWF Officer as required in Corrections’ Department Operations Manual (DOM).

Criteria: Section 23010.4 of the Article 20, DOM states each facility shall budget IWF expenditures so that expenditures shall not exceed budget allocations and revenues from IWF activities unless approved by the Central Office IWF Officer.

Recommendation: Ensure IWF canteen expenditures do not exceed the revenue generated unless approved by the Central Office IWF Officer.

#### **FINDING 5 Ineligible Equipment Replacement Fund Costs**

Condition: The Equipment Replacement Fund’s (ERF) records show ineligible expenditures of \$4,600 for pavement work on the Facility and \$1,186 to purchase the City a laptop. The ERF was established to purchase or replace obsolete Facility equipment. However, costs incurred for Facility improvements or to purchase a laptop for other than the Facility’s use are considered ineligible ERF expenditures. According to the City accounting staff, these costs should have been charged to the City Fund and the Building Appurtenance Account, but were charged to the ERF in error.

Criteria: The Handbook, page 13 states any obsolete equipment used by the contractor to operate a Corrections program would be replaced with the ERF.

Recommendation: Transfer \$5,786 from the City Fund and the Building Appurtenance Account to the ERF.

**FINDING 6 Non-Compliance with Procurement Requirements**

Condition: The Facility does not purchase equipment from the Prison Industry Authority (PIA). In addition, the Facility does not obtain Corrections prior approval when not purchasing from PIA.

*We reported a similar condition in our prior audit report dated May 2006.*

Criteria: The Handbook, page 12 requires written requests with justification for the purchase of non-PIA equipment be submitted to and approved by the Reentry Administrator.

Recommendation: Obtain written approval from Corrections prior to making non-PIA equipment purchases.

## OTHER IDENTIFIED OBSERVATIONS

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We identified the following other observations not discussed in the *Findings and Recommendations* section, including specific subject matter requested by the California Department of Corrections and Rehabilitation (Corrections).

### **OBSERVATION 1: Inmate Telephone Revenue Fund Expenditures**

The Taft Community Correctional Facility (Facility) charges \$1,500 to the Inmate Telephone Revenue Fund (ITRF) for inmate woodshop space in a building across from the Facility. The Facility claims the lease expenditure is an allowable ITRF expense because it is related to the inmates' educational program.

The contract allows the use of the ITRF funds for specified purposes including "inmate educational and/or vocational programs, including the cost of personnel and equipment associated therewith."

Corrections will make the final determination on whether these expenditures are allowable.

### **OBSERVATION 2: Inmate Pay Budget and Off Reservation Work Assignment Funding**

Facility records indicate in fiscal year 2007-08 approximately \$84,000 was expended for Inmate Pay. However, in a March 20, 2008 memo to the Facility Director, Corrections stated its expectation that the Facility will operate within its established annual inmate pay budget of approximately \$36,000. Section 51120.4 of the Corrections' Department Operations Manual (DOM), requires that wardens "shall administer the inmate pay program of their respective jurisdictions within budgeted funds."

Effective February 2008, the Facility opted to fund its inmate payroll for Off Reservation Work Assignments (ORWA) with ITRF funds. The Facility claims its ORWA provides work training for selected inmates. Under the contract's inmate educational and/or vocational programs, ITRF use clause (Amendment 5), it states the ITRF is an appropriate source of ORWA funding. However, the Facility pays all ORWA inmates \$0.35 per hour regardless of the inmate work skill level pay rates. This is contrary to Sections 51121.62 and 51121.7 of the DOM.

Corrections will make the final determination regarding this compliance issue.

APPENDIX A

SCHEDULE OF REPORTED AND  
AUDITED REVENUE AND EXPENDITURES

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**Taft Community Correctional Facility**  
**Contract R96.1591.105**  
**Schedule of Reported and Audited Revenue and Expenditures**  
**For the Period July 1, 2005 through June 30, 2006**

<u>Category</u>	<u>Contract Budget</u>	<u>Reported</u>	<u>Questioned</u>	<u>Audited</u>
Revenue	\$7,041,932	\$7,029,427	\$ 0	\$7,029,427
Expenditures:				
Lease Expense	1,881,578	1,881,720	0	1,881,720
Personnel	2,755,476	3,214,867	0	3,214,867
Training	39,084	2,854	0	2,854
Equipment Depreciation	57,204	57,241	0	57,241
Liability Insurance	148,092	40,684	0	40,684
Operating Expenses (a)	603,237	746,077	(29,004)	717,073
Transportation Costs	22,104	15,877	0	15,877
Medical Supplies	23,364	1,904	0	1,904
Administrative Overhead	339,576	339,576	0	339,576
Food Contract	728,292	715,564	0	715,564
Inmate Clothing	<u>81,658</u>	<u>47,953</u>	<u>0</u>	<u>47,953</u>
Total Expenditures	<u>\$6,679,665</u>	<u>\$7,064,317</u>	<u>\$(29,004)</u>	<u>7,035,313</u>
Service Fee	\$ 362,267	\$ 362,267		<u>362,267</u>
Gain/(Loss)				<u>\$(368,153)</u>

(a) = See Finding 2.

APPENDIX A (Continued)

SCHEDULE OF REPORTED AND  
AUDITED REVENUE AND EXPENDITURES

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**Taft Community Correctional Facility**  
**Contract R96.1591.105**  
**Schedule of Reported and Audited Revenue and Expenditures**  
**For the Period July 1, 2006 to June 30, 2007**

<u>Category</u>	<u>Contract Budget</u>	<u>Reported</u>	<u>Adjustment Questioned</u>	<u>Audited</u>
Revenue	\$10,459,064	\$8,215,988	\$ 0	\$8,215,988
Expenditures:				
Lease Expense	1,881,275	1,881,184	0	1,881,184
Personnel	3,496,792	3,630,787	0	3,630,787
Training Costs	65,726	1,432	0	1,432
Temporary Help	0	21,013	0	21,013
Equipment Depreciation	57,204	57,204	0	57,204
Liability Insurance	225,018	63,514	0	63,514
Operating Expenses (a)	892,001	857,720	(44,820)	812,900
Transportation Costs	48,629	9,518	0	9,518
Medical Supplies	40,755	1,505	0	1,505
Administrative Overhead	423,666	394,199	0	394,199
Food Contract	880,241	782,918	0	782,918
Inmate Clothing	<u>93,825</u>	<u>68,305</u>	<u>0</u>	<u>68,305</u>
Total Expenditures	<u>\$8,105,132</u>	<u>\$7,769,299</u>	<u>\$ (44,820)</u>	<u>\$7,724,479</u>
Service Fee	\$ 472,658	\$ 432,994	\$ 39,664	<u>\$ 472,658</u>
Gain/(Loss)				<u>\$ 18,852</u>

(a) = See Finding 2.

APPENDIX A (Continued)

SCHEDULE OF REPORTED AND  
AUDITED REVENUE AND EXPENDITURES

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**Taft Community Correctional Facility**  
**Contract R96.1591.105**  
**Schedule of Reported and Audited Revenue and Expenditures**  
**For the Period July 1, 2007 to June 30, 2008**

<u>Category</u>	<u>Contract Budget</u>	<u>Reported</u>	<u>Questioned</u>	<u>Audited</u>
Revenue	\$10,701,607	\$8,838,017	\$ 0	\$8,838,017
Expenditures:				
Lease Expense	1,880,585	1,880,791	0	1,880,791
Personnel	3,619,571	3,932,693	0	3,932,693
Training Costs	70,812	1,128	0	1,128
Temporary Help	0	40,169	0	40,169
Professional Services	0	310	0	310
Equipment Depreciation	57,204	57,204	0	57,204
Liability Insurance	238,685	42,940	0	42,940
Operating Expenses (a)	946,256	839,807	(40,409)	799,398
Transportation Costs	53,797	10,239	0	10,239
Education Reimbursement	0	602	0	602
Medical Supplies	44,088	2,733	0	2,733
Administrative Overhead	438,400	438,400	0	438,400
Food Contract	907,853	858,412	0	858,412
Inmate Clothing	<u>96,482</u>	<u>68,545</u>	<u>0</u>	<u>68,545</u>
Total Expenditures	<u>\$ 8,353,733</u>	<u>\$8,173,973</u>	<u>\$ (40,409)</u>	8,133,564
Service Fee	\$ 467,290	\$ 467,290		<u>\$ 467,290</u>
Gain/(Loss)				<u>\$ 237,163</u>

(a) = See Finding 2.

APPENDIX B  
INMATE WELFARE FUND  
BALANCES

**Taft Community Correctional Facility  
Contract R96.1591.105  
Inmate Welfare Fund Balances  
For the Period April 1, 2006 through December 31, 2008**

	<u>April 1, 2006 to June 30, 2006</u>	<u>July 1, 2006 to June 30, 2007</u>	<u>July 1, 2007 to June 30, 2008</u>	<u>July 1, 2008 to December 31, 2008</u>
Beginning Balance	\$57,330	\$14,948	\$67,428	\$38,562
Deposits	105,070	314,058	431,656	130,385
Interest Income	<u>116</u>	<u>428</u>	<u>767</u>	<u>133</u>
Total Receipts	<u>105,186</u>	<u>314,486</u>	<u>432,423</u>	<u>130,518</u>
Disbursements	(152,250)	(266,056)	(464,833)	(124,697)
Audit Adjustment (a)	<u>4,682</u>	<u>4,050</u>	<u>3,544</u>	<u>0</u>
Ending Balance	<u>\$ 14,948</u>	<u>\$ 67,428</u>	<u>\$ 38,562</u>	<u>\$44,383</u>

(a) = See Finding 3.

APPENDIX B (Continued)  
 INMATE TELEPHONE REVENUE FUND  
 BALANCES

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**Taft Community Correctional Facility  
 Contract R96.1591.105  
 Inmate Telephone Revenue Fund Balances  
 For the Period April 1, 2006 through December 31, 2008**

	<u>April 1, 2006 to June 30, 2006</u>	<u>July 1, 2006 to June 30, 2007</u>	<u>July 1, 2007 to June 30, 2008</u>	<u>July 1, 2008 to December 31, 2008</u>
Beginning Balance	\$465,919	\$371,498	\$427,487	\$428,229
Deposits	62,676	170,503	166,218	67,183
Interest Income	<u>5,450</u>	<u>19,348</u>	<u>18,411</u>	<u>7,785</u>
Total Receipts:	<u>68,126</u>	<u>189,851</u>	<u>184,629</u>	<u>74,968</u>
Disbursements	<u>(162,547)</u>	<u>(133,862)</u>	<u>(183,887)</u>	<u>(4,420)</u>
Ending Balance	<u>\$371,498</u>	<u>\$427,487</u>	<u>\$ 428,229</u>	<u>\$498,777</u>

APPENDIX B (Continued)  
EQUIPMENT REPLACEMENT FUND  
BALANCES

**Taft Community Correctional Facility  
Contract R96.1591.105  
Equipment Replacement Fund Balances  
For the Period April 1, 2006 through December 31, 2008**

	<u>April 1, 2006 to June 30, 2006</u>	<u>July 1, 2006 to June 30, 2007</u>	<u>July 1, 2007 to June 30, 2008</u>	<u>July 1, 2008 to December 31, 2008</u>
Beginning Balance	\$183,697	\$211,041	\$270,557	\$328,665
Deposits	14,301	57,204	57,204	28,602
Interest Income	<u>2,270</u>	<u>11,604</u>	<u>10,885</u>	<u>5,889</u>
Total Receipts	<u>\$ 16,571</u>	<u>\$ 68,808</u>	<u>\$ 68,089</u>	<u>\$ 34,491</u>
Disbursements (a)	10,773	(9,292)	(15,767)	(217)
Audit Adjustment (b)	<u>0</u>	<u>0</u>	<u>5,786</u>	<u>0</u>
Ending Balance	<u>\$211,041</u>	<u>\$270,557</u>	<u>\$328,665</u>	<u>\$362,939</u>

(a) = Payment adjustment for uncompleted Inmate Software System.

(b) = See Finding 5.

APPENDIX B (Continued)  
 DEBT SERVICE FUND  
 BALANCES

**Taft Community Correctional Facility  
 Contract R96.1591.105  
 Debt Service Fund Balances  
 For the Period April 1, 2006 through December 31, 2008**

	<u>April 1, 2006 to June 30, 2006</u>	<u>July 1, 2006 to June 30, 2007</u>	<u>July 1, 2007 to June 30, 2008</u>	<u>July 1, 2008 to December 31, 2008</u>
Beginning Balance	\$2,388,626	\$3,211,114	\$3,184,573	\$3,267,048
Deposits	783,636	1,724,456	1,880,792	626,449
Interest Income	<u>38,852</u>	<u>134,581</u>	<u>88,356</u>	<u>10,126</u>
Total Receipts	<u>822,488</u>	<u>1,859,037</u>	<u>1,969,148</u>	<u>636,575</u>
Disbursements	<u>0</u>	<u>(1,885,578)</u>	<u>(1,886,673)</u>	<u>(384,674)</u>
Ending Balance	<u>\$3,211,114</u>	<u>\$3,184,573</u>	<u>\$3,267,048</u>	<u>\$3,518,949</u>

# RESPONSE

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September 30, 2009

David Botelho, Chief  
Department of Finance  
Office of State Audits and Evaluations  
300 Capitol Mall, Suite 801  
Sacramento, CA 95814

Subject: Draft Audit Report – Taft Community Correction Facility Contract R96.15  
91.105

Dear Mr. Botelho,

This letter shall serve as the city of Taft response to the draft audit report for the Taft Community Correctional Facility Contract R96.1591.105 for the period July 1, 2005 through December 31, 2008.

**THE FIRST PART OF THIS RESPONSE IS TO CORRECT AN ERRONEOUS STATEMENT IN THE EXECUTIVE SUMMARY:**

STATEMENT - “Under the direction of the on-site Corrections staff, the city also assists with inmate custody and Facility security”.

CORRECTION - The Taft CCF (per contract-Statement of Work) is fully responsible for the management of the facility in accordance with CDC policies and procedures and pursuant to program policies and procedures DEVELOPED BY THE CONTRACTOR and approved by CCFA Administration. The Taft CCF (per contract-Statement of Work) has PRIMARY RESPONSIBILITY for the security and safekeeping of all

inmates of the program, and the duties of the CDC staff will be limited to those necessary for transportation of inmates to and from the facility, CDC related casework, and administrative liaison. The Taft CCF is a Public CCF and is not under the direction of on-site CDC custody staff as are Private CCFs. NOTE-there are no CDC Custody Staff employed at the Taft CCF, only CDC Counselors.

For CONFIRMATION OF CORRECTION please refer to CCFA Contract R96.1591.105 page 4 (cc) "Statement of Work", and STATEMENT OF WORK FOR PUBLIC COMMUNITY CORRECTIONAL CENTERS UNDER PENAL CODE SECTION 2910, 2910.5, and 2910.6 State of California, Department of Corrections July 1989, page 1 item II. CONTRACTOR AUTHORITY AND RESPONSIBILITIES section A. ORGANIZATION, and page 2 item II. CONTRACTOR AUTHORITY AND RESPONSIBILITIES section B. ADMINISTRATION AND MANAGEMENT. Also refer to STATEMENT OF WORK page 11 item III. PROGRAM OPERATIONS section A. GENERAL.

**THE SECOND PART OF THIS RESPONSE IS TO CORRECT AN ERRONEOUS STATEMENT IN THE BACKGROUND, SCOPE, and METHODOLOGY under BACKGROUND:**

STATEMENT – "The Community Correctional Facilities Administration within Corrections is responsible for the on-site administration of the program".

CORRECTION - The Taft CCF is responsible for the on-site administration of the program. CCFA has the responsibility to monitor the program for contract compliance, not for ON-SITE administration.

For CONFIRMATION OF CORRECTION please refer to the Statement of Work as quoted above.

**THE THIRD PART OF THIS RESPONSE IS TO ADDRESS THE FINDINGS:**

**Finding 1 Minimum Security Staffing Requirements Not Met**

In the quarters randomly selected Q1/2005-06, Q3/2005-06, and Q2/2006-07 the Taft CCF had an FTE for 50.6 positions as per contract. This does not mean 50.6 bodies

should be employed. This FTE position figure of 50.6 includes backfilling for days off, vacation, holidays, sick leave days, training days, and to accommodate for overtime for minimum staffing per contract Addendum F (Taft CCF is not compensated for overtime to accommodate contract addendum F). The Taft CCF strives to maintain staff employment at 47.75 bodies. The difference of FTE from 50.6 minus 47.75 is 2.85 bodies. These 2.85 bodies are salaries reserved to backfill as described above.

During the audited quarters mentioned above the Taft CCF was down varied staff count from the 47.75 which the CCF strived to maintain. This shortage was caused by retirements, terminations, resignations, etc. When the CCF was below the staff count of 47.75 the CCF immediately started testing and processing backgrounds to increase staff count during any time staff count was down.

During the quarters randomly selected Q1/2007-08 and Q4/2007-08 the Taft CCF had an FTE of 57.4 positions as per contract. This 57.4 figure includes an additional 6.75 staff employed for the additional 80 bed contract beginning in Q3/2006-07. The Taft CCF presently strives to maintain a staff body count of 53.75 (47.75 plus 6.75). The Taft CCF reduced an additional .8 body salary from the total of 57.4 contract staff count to add to the 2.85 previously reserved body salaries described above making a total of 3.65 staff body salaries reserved to use to backfill for days off, vacation, holidays, sick leave days, training days, and overtime to accommodate for contract Addendum F.

It should also be noted the Taft CCF was currently down three (3) staff from 53.75 at the time of the audit and the CCF was currently processing for three (3) new staff. These 3 new staff would make the staff total 53.75 instead of 50.0 for Q4/2007-08 as addressed in the audit. When these three staff are employed the Taft CCF staff count will be at 53.75 with 3.65 reserve staff salaries for backfilling as stated above.

Since the audit the Taft CCF has continued processing applications for three new staff. Two new staff were employed since the audit. The Taft CCF has also had another staff member resign since the audit. The CCF is still down two staff from 53.75, however, the CCF is continuing to process applications to hire two additional staff to bring the facility staff count to 53.75.

It was brought to the attention of the audit team that the Taft CCF has responded in the same manner to this audit finding in all previous audits since this facility opened in 1990. The Taft CCF has never been found to be out of compliance in this area in the past with the analogy as explained.

## **Finding 2     Inappropriate Interest Charges**

The audit report questioned \$114,233 in interest expense during the three-year contract period. \$29,004 for 2005-06, \$44,820 for 2006-07, and \$40,409 for 2007-08.

These costs represent a very minimal (less than 1%) of total overall expenditures for all fiscal years. The City will revise the annual cost reports to exclude the interest and will calculate the penalties that the State owes for all late payments that were received and submit a statement to the State for any late payments per the California Prompt Payment Act. The City's contract with the State is a non-reimbursable contract, so in response to the request that the City remit all inappropriately claimed interest charges to Corrections is incorrect and the City will not remit any funds back to the Corrections.

**Finding 3 Unallowable General Government Costs Claimed (IWF)**

The City will reexamine the procedures and cost associated with the overhead calculation for the years of 2005-06, 2006-07 and 2007-08 and determine the refund amount if any due to the IWF. If any refund is due which causes a positive balance in the IWF the City will also refund any funds that were transferred from the Cities TRF to cover these unallowable costs.

**Finding 4 Inmate Welfare Fund is not Self-Sustaining**

The Taft CCF Inmate Welfare Fund is under the direction of the Warden of the institution ( Taft CCF Facility Administrator ) as per CDCR Department Operations Manual ( DOM ) per section 23010.3 "Responsibility". Under this same DOM section the IWF Officer ( Central Office IWF Officer ) at the institution provides overall planning and guidance regarding IWF operations. The Taft CCF Central Office IWF Officer has been designated as the Facility Manager. The Taft CCF Facility Manager has approved the IWF expenditures to exceed budget allocations and revenues from IWF activities. The Taft CCF Inmate Welfare Fund is funded by profit from sales of commissary items to inmates from the Facility Canteen and ( by contract ) is further supplemented with funding from the Inmate Telephone Revenue Fund ( ITRF ).

The Audit Team has incorrectly assessed the profit margin from Canteen Sales. The audit Team has wrongly interpreted the computer program sheet showing item markup at 1.6 percent. The markup is actually 60.0 percent per item.

See the attached Canteen cost sheet and compare the UNIT COST per item with UNIT SALE PRICE, then refer to ( % Markup ) column. By comparison of these two items it shows a profit margin of 60.0 %. The % Markup column shows 1.6 meaning 160 percent total item cost for a markup of 60.0 percent per item. There is actually a 60.0 percent markup on all but 23 of the 174 items sold from the Canteen. Six of the 23 items have a markup of 64.0 percent and the 17 remaining items have a 0.0 markup. Those with a 0.0 percent markup are hygiene and health items. The hygiene and health items were not marked up to allow the inmates to obtain these at cost to promote healthy hygiene within the CCF.

The CCF Canteen sales ( at 60.0 percent profit margin ) does not fully fund the approved IWF expenditures. Thus by contract the IWF fund can be supplemented by funds from the ITRF. These expenditures have been approved by the Facility Manager ( Facility Central Office IWF Officer ) as per contract.

#### **Finding 5 Ineligible Equipment Replacement Fund Costs**

The report states that the Equipment Replacement Fund's record show ineligible expenditure of \$4,600 for pavement work on the Facility and according to the City accounting staff, these costs should have been charged to the Building Appurtenance Account.

The error that actual occurred was that the City in the fiscal year 2007-2008, calculating the amount to transfer from TRF for Building Appurtenance this amount was inadvertently excluded. The City corrected the error in fiscal year 2008-2009 by transferring additional \$4,600, this correction was done prior to the auditors leaving and was presented to them.

Second the report states that the Equipment Replacement Fund's record show ineligible expenditure of \$1,186 for the purchase of a laptop.

The City ordered two Dell laptops in the same time frame one for the Correctional Facility and one for the City. The City's accountant inadvertently placed both laptops to the Corrections Facility in error. In the fiscal year 2008-09 the laptop has been removed from the equipment list and all accounting records have been adjusted accordingly to correct this error. The asset was transferred out to the Cities General Fund and the Equipment Replacement Fund has been credited for this error.

#### **Finding 6 Non-Compliance with Procurement Requirements**

By past practice the TAFT CCF has never gotten permission from CDCR-CCFA for any purchases ever made at this facility in the 19 years it has been operating. This facility has never purchased anything not needed and this has been verified by all State audits of this facility.

The Taft CCF has continually tried purchasing PIA supplies and equipment, however, except for inmate bunks and locker purchases made for the ( 80 Bed Contract – excellent quality ) PIA has never been competitive with prices, cannot deliver within adequate time constraints, does not have the items, or does not respond to phone calls in prompt manner. Attempts will continue to be made to purchase from PIA and future documentation will be made of these attempts.

Thank you for the opportunity to respond to the draft audit report.

Sincerely,

Original signed by:

Teresa Statler  
Finance Director

Original signed by:

Ken McMinn  
Facility Administrator

cc: Robert Gorson, City Manager  
Laura Dillingham, Facility Manager

## EVALUATION OF RESPONSE

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We have reviewed the Facility's September 30, 2009 response which is incorporated into the final report. Attachments referenced in the response have been omitted in the interest of brevity. In this evaluation of the Facility's response, we do not provide additional comments on findings where the Facility agrees, or proposes adequate action. However, for findings where the Facility did not agree, did not propose adequate action, or where we deem additional comments necessary, we provide the following evaluation:

### **Executive Summary and Background**

Based on the Facility's response, the two statements describing the Facility's responsibilities were removed to avoid confusion. Such statements were not considered significant to the substance of the audit report.

#### **FINDING 2                      Inappropriate Interest Charges**

The Facility does not contest this finding. However, its response objects to the portion of the recommendation requiring a refund of the \$114,233 interest inappropriately claimed. Corrections determines the final disposition of the inappropriate interest paid to the Facility.

#### **FINDING 4                      Inmate Welfare Fund is not Self-Sustaining**

In our draft report, we stated the average mark-up on IWF canteen resale merchandise was 1.5 percent. The Facility response suggests that the mark-up should have been read as 60 percent rather than 1.6 percent. We acknowledge the error and deleted the applicable sentence from the audit report.