



Transmitted via e-mail

June 15, 2011

Mr. John Guinn, City Manager  
City of Shafter  
336 Pacific Avenue  
Shafter, CA 93263

Dear Mr. Guinn:

**Final Report—Shafter Community Correctional Facility, Contract R96.1591.104**

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Shafter Community Correctional Facility (Facility) for the period July 1, 2006 through June 30, 2009.

The enclosed report is for your information and use. The City of Shafter's response to the report findings and our evaluation of the response are incorporated into this final report.

This report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, the California Department of Corrections and Rehabilitation should 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 and the City of Shafter. If you have any questions regarding this report, please contact Cheryl McCormick, Manager, 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. Terry Dickinson, Correctional Administrator, Community Correctional Facilities Administration, California Department of Corrections and Rehabilitation  
Ms. Dalinda Harman, Chief, Community Correctional Facilities Administration, California Department of Corrections and Rehabilitation  
Mr. Robert Logan, Staff Services Manager I, Community Correctional Facilities Administration, California Department of Corrections and Rehabilitation  
Ms. Flordeliza Ligaya, Staff Services Manager I, Community Correctional Facilities Administration, California Department of Corrections and Rehabilitation  
Ms. Dorothy Kasper, Program Analyst, Community Correctional Facilities Administration, California Department of Corrections and Rehabilitation  
Mr. Paul R. Lozano, Chief of Corrections, Shafter Community Correctional Facility  
Ms. Jo Barrick, Administrative Services Director, City of Shafter

AUDIT REPORT

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Shafter Community Correctional Facility

Contract R96.1591.104

For the Period July 1, 2006

through June 30, 2009

Prepared By:

Office of State Audits and Evaluations

Department of Finance

**MEMBERS OF THE TEAM**

Cheryl L. McCormick, CPA  
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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 Shafter (City) to operate the Shafter Community Correctional Facility (Facility). The City is responsible for providing inmate housing, sustenance, and coordinating inmate activities within the Facility. Under the direction of on-site Corrections staff, the City also assists with inmate custody and Facility security. The Facility is located in Shafter, California, and is designed to accommodate an average daily population of 468 inmates.

Corrections requested the Department of Finance, Office of State Audits and Evaluations (Finance), to perform a fiscal compliance audit of contract R96.1591.104 for the period July 1, 2006 through June 30, 2009.

## **Review Results:**

- The City incorrectly reported its operating profit/loss in the year-end Quarterly Cost Reports (QCRs). Specifically, the City understated its reported program revenue by \$303,616, \$346,926, and \$315,476 during fiscal years 2006-07, 2007-08, and 2008-09, respectively. Although the City reported Community Service Program revenue in the Revenue line item, the amounts were deducted prior to calculating the net profit or loss. Additionally, the City incorrectly included the Service Fee in its calculation. We recommend the City revise and resubmit the year-end QCRs to properly report its operating profit or loss.
- The City's operating expenses and revenue reported to Corrections were not consistent with the City's accounting records and were misstated on the QCRs. We recommend the City revise and resubmit its QCRs to properly present operating expenses and revenues.
- The City incorrectly posted \$23,866 of operating expenses to the general ledger Food and Clothing account. Additionally, food and clothing transactions totaling \$4,099 were incorrectly posted to the Operating Expense account. We recommend the City revise and resubmit its QCRs to properly present food and clothing expenses and operating expenses.
- Internal Controls over fixed assets were inadequate. Specifically, televisions purchased totaling \$2,926 were not documented on the equipment list, bids submitted for equipment totaling \$72,796 could not be verified, and equipment purchased with contract funds was not readily identifiable with a property tag. We recommend the City conduct a periodic inventory of equipment, submit an accurate equipment list to Corrections, comply with the required nonexpendable equipment purchase bid process, and assure equipment purchased with contract funds is tagged.
- The City overstated Service Fees by \$21,000 in fiscal year 2008-09. We recommend the City revise and resubmit its QCR to properly present Service Fees for fiscal year 2008-09.

# BACKGROUND, SCOPE, AND METHODOLOGY

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## BACKGROUND

The California Department of Corrections and Rehabilitation (Corrections) administers the Community Correctional Facility Program (Program). The Program is intended to ease overcrowding in state institutions, reduce the need for building new state correctional institutions, and provide a financial benefit for the local community in which the facility is located. The Community Correctional Facilities Administration within Corrections is responsible for the on-site administration of the Program.

Penal Code section 6256 authorizes Corrections to enter into contracts with appropriate public and private entities to provide housing, sustenance, supervision, inmate work incentive programs, education, vocational training, pre-release program assessment planning, and other services, as stipulated. Corrections contracted with the City of Shafter (City), for the operation of the Shafter Community Correctional Facility (Facility).

As stipulated by contract R96.1591.104, the Facility's funding is a combination of flat rate expenditure reimbursement and per diem funding. The combined funding was \$8,831,400, \$9,077,837, and \$9,056,288 in fiscal years 2006-07, 2007-08, and 2008-09, respectively. Contract funds are used for the expenditure categories as shown in Appendix A.

The Facility is required to account for its funds separately from its general operations. 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.
- *Building Replacement Fund*—A fund allocated for the maintenance to the Facility's building.
- *Equipment Replacement Fund*—A fund allocated for the replacement of Facility equipment.
- *Inmate Telephone Revenue Fund*—A fund that accounts for moneys earned by inmate use of telephone services.
- *Debt Service Fund*—A fund used to account for the debt service on outstanding bonds.

## SCOPE AND OBJECTIVES

In accordance with an interagency agreement with Corrections, the Department of Finance, Office of State Audits and Evaluations (Finance), conducted a fiscal compliance audit of contract R96.1591.104 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, 2006 through June 30, 2009.
- 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.
- Review the activities and contract compliance of the Inmate Welfare Fund, Inmate Trust Fund, Building and Equipment Replacement Funds, Inmate Telephone Revenue Fund, and Debt Service Fund for the period July 1, 2006 through June 30, 2009.

## **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.

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. 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 Community Correctional Facilities dated July 1989 (Handbook), was performed to determine that selected items met eligibility requirements.

The Inmate Welfare Fund, Inmate Trust Fund, Building and Equipment Replacement Funds, Inmate Telephone Revenue Fund, and Debt Service Fund 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 representatives. The Appendices include schedules of financial related information that is presented for additional information and analysis.

Recommendations were developed based on contract requirements and guidelines set forth in the Handbook. This audit was conducted from March 2010 through April 2011.

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 contract R96.1591.104, 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 the Facility's 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 the Facility, City, and Corrections management, and is not intended to be and should not be used by anyone other than these 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                      Overstatement of Operating Loss**

**Condition**                      The City incorrectly calculated its Net Profit (Loss) reported in the Quarterly Cost Reports (QCRs) for the three years audited. Specifically, the City reported Community Service Program revenues received under contract from Caltrans, but then deducted the revenues during its calculation of Net Profit (Loss).

Facility staff stated the Caltrans revenues were eliminated because the City considers the contract receipts to be “non renewable revenues.” However, our review noted the City’s contract with Caltrans was executed in July 2002; and on July 1, 2008, the contract was renewed through June 30, 2011 “unless extended by amendment.” Therefore, we do not consider these revenues “non renewable.”

Additionally, the City incorrectly included the Service Fee in its Net Profit (Loss) calculation. Because the Service Fee is not considered a program expense, it should not enter into the calculation of the operating Net Profit (Loss).

Eliminating the Caltrans contract revenues and including the Service Fee in its calculations overstates the reported annual Facility operating losses. Table 1 recalculates the operating Net Profit (Loss) for fiscal years 2006-07 through 2008-09.

**Table 1: Recalculation of Operating Net Profit (Loss)**

	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>
<b>Reported Net Loss</b>	(\$784,632)	(\$658,061)	(\$916,415)
<b>Add Back:</b>			
<b>Excluded Caltrans Revenue</b>	303,616	346,926	315,476
<b>Service Fee</b>	<u>691,464</u>	<u>1,164,625</u>	<u>1,164,625</u>
<b>Operating Profit<sup>1</sup></b>	<b><u>\$210,448</u></b>	<b><u>\$853,490</u></b>	<b><u>\$563,686</u></b>

**Criteria:**                      Financial Management Handbook for Community Correctional Facilities dated July 1989 (Handbook), section III, states that program income consists of, but is not limited to contract revenues, other contributions, and donations. Program income must be recorded and identified to offset specific programs costs.

<sup>1</sup> The Operating Profit recalculated in Finding 1 will not agree with amount reported in Appendix A as other Findings impacted the Appendix A net Profit (Loss) calculation.

Contract R96.1591.104, Contract Allotment, reports Service Fee as a separate line item—not a component of program expenses.

Recommendation: Revise and resubmit the fiscal year 2006-07, 2007-08, and 2008-09 QCRs to properly present the operating Net Profit (Loss).

**FINDING 2 Reported Amounts Are Not Consistent With Accounting Records**

Condition: The City’s QCRs misstated its operating expenses, other revenues, and Inmate Telephone Revenue Fund (ITRF) Transfers into Operations. The ITRF QCRs misstated the ITRF interest and ITRF Transfers into Operations and IWF. The understatements/overstatements range from 7.4 percent to 100 percent of the amounts accounted for in the Facility’s general ledger as illustrated in Table 2.

**Table 2: QCR Misstatements**

**Operating Expenses**

	2006-07	2007-08	2008-09
QCR	\$909,107	\$801,309	\$895,342
General Ledger	988,655	868,155	967,572
QCR Understatement	<b>(\$ 79,548)</b>	<b>(\$ 66,846)</b>	<b>(\$ 72,230)</b>
Percentage Understatement	(8.0%)	(7.7%)	(7.5%)

**Other Revenues**

	2006-07	2007-08	2008-09
QCR	\$303,616	\$346,926	\$315,476
General Ledger	327,823	393,254	340,715
QCR Understatement	<b>(\$ 24,207)</b>	<b>(\$ 46,328)</b>	<b>(\$ 25,239)</b>
Percentage Understatement	(7.4%)	(11.8%)	(7.4%)

**ITRF Transfers into Operations**

	2006-07	2007-08	2008-09
QCR	\$ 0	\$ 0	\$127,752
General Ledger	80,733	330,456	79,448
QCR (Under) /Overstatement	<b>(\$80,733)</b>	<b>(\$330,456)</b>	<b>\$ 48,304</b>
Percentage (Under) /Overstatement	(100%)	(100%)	61%

**ITRF Interest Revenue<sup>2</sup>**

	2006-07	2007-08	2008-09
<b>QCR</b>	\$5,392	\$ 0	\$ 0
<b>General Ledger</b>	8,828	8,189	2,921
<b>QCR Understatement</b>	<b>(\$3,436)</b>	<b>(\$8,189)</b>	<b>(\$2,921)</b>
<b>Percentage Understatement</b>	(39%)	(100%)	(100%)

**ITRF Transfers into IWF<sup>3</sup>**

	2006-07	2007-08	2008-09
<b>QCR</b>	\$ 67,423	\$ 34,534	\$ 82,756
<b>General Ledger</b>	137,382	108,331	173,994
<b>QCR Understatement</b>	<b>(\$ 69,959)</b>	<b>(\$ 73,797)</b>	<b>(\$ 91,238)</b>
<b>Percentage Understatement</b>	(51%)	(68%)	(52%)

Per City staff, transactions are posted to the general ledger after the QCRs are submitted to Corrections. As a result, transactions accounted for in the general ledger subsequent to QCR submission are not reflected in the reports. Furthermore, an updated QCR is not sent to Corrections.

**Criteria:**

Handbook, section III, Accounting Systems, requires the contractor to ensure accounting records provide information necessary to identify receipt and expenditures of all project funds.

Contract R96.1591.104, Amendment 5, states the ITRF expenditures will be reported with the QCRs and must identify beginning balances, revenues, expenditures, and ending balances.

Handbook, section IV.B, states Corrections will consider QCRs received to be accurate and will be used to monitor use of funds.

**Recommendation:**

Revise and resubmit the fiscal year 2006-07, 2007-08, and 2008-09 QCRs to properly reflect all of the Facility's transactions.

**FINDING 3****Misclassified Expenditures****Condition:**

The City erroneously reported \$23,866 of Operating Expenses as Food and Clothing Expenses and \$4,099 of Food and Clothing expenses as Operating Expenses in its QCRs, for a net misstatement of \$19,767 as illustrated in Table 3.

<sup>2</sup> Amounts per general ledger reported in Appendix C.

<sup>3</sup> Amounts per general ledger reported in Appendix C.

**Table 3: Misclassified Expenditures**

<b>Fiscal Year</b>	<b>Food and Clothing Expenses</b>	<b>Operating Expenses</b>	<b>Net Misstatement</b>
<b>2006-07</b>	\$1,774	\$ 7,403	\$ 5,629
<b>2007-08</b>	2,325	11,132	8,807
<b>2008-09</b>	0	5,331	5,331
<b>Total</b>	<b><u>\$4,099</u></b>	<b><u>\$23,866</u></b>	<b><u>\$19,767</u></b>

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

Criteria: Handbook, section III C, Food Costs, requires the contractor to claim for food costs only items used in the preparation of a meal. Specifically, items such as pots, pans, utensils, and cleaning detergents do not meet the food costs criteria.

Handbook, section III A, General, requires expenditures of contract funds must be recorded in general ledger accounts which parallel the proper budget categories.

Recommendations: Ensure the City follows Handbook guidelines when classifying and recording expenditures in its general ledger.

Revise and resubmit the fiscal year 2006-07, 2007-08, and 2008-09 QCRs to properly reflect allowable operating and food and clothing expenses.

**FINDING 4 Inadequate Controls over Fixed Assets**

Condition: Internal controls over fixed assets are inadequate. Specifically, the City failed to perform a periodic inventory of equipment. Additionally, our review found the Equipment List submitted to Corrections was incomplete as it did not include three television sets totaling \$2,926. Further, the City failed to provide evidence that its purchase of various equipment totaling \$72,796 benefited from a bid process. The City also does not readily identify, with a property tag, assets purchased with state contract funds.

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

Criteria: Handbook, section III C, Non Expendable Equipment Purchases, requires:

- A yearly inventory of the Facility owned non expendable equipment with a copy submitted to Corrections.
- The City to utilize a three bid process prior to making equipment purchases in the event the Prison Industry Authority cannot meet its needs. The bid should be awarded to the lowest qualified

bidder able to meet the required delivery/installation date of the approved project.

Handbook, section II H, Internal Controls, states the Facility Director and the Fiscal Officer are responsible for implementing adequate internal control procedures. The City is responsible for monitoring these controls.

A satisfactory internal control system would include a system of authorization and record keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues and expenses, as well as an effective system of internal review.

Recommendations: Ensure a periodic inventory of equipment is conducted, the Equipment List submitted to Corrections is accurate, equipment purchases comply with required bid processes, and equipment purchased with contract funds is appropriately tagged.

**FINDING 5                      Overstatement of Service Fee**

Condition: The City overstated the fiscal year 2008-09 service fee by \$21,000. Contract R96.1591.104 required the monthly service fee to be reduced by \$3,500 a month beginning in the first month of the eleventh year (i.e., January 2007) of the contract term. However, during 2008-09, the City failed to reduce the service fee for six months creating a \$21,000 overstatement (i.e., \$3,500 x 6 months) as shown in Table 4 below.

**Table 4: Overstated Service Fee**

<b>2008-09</b>	<b>Contract</b>	<b>Reported</b>	<b>Overstatement</b>
<b>Service Fee</b>	\$ 1,143,625	\$ 1,164,625	<b>\$ 21,000</b>

Criteria: Contract R96.1591.104 states the service fee component of the Contract shall be permanently reduced, beginning in the first month of the eleventh year of the term of this Contract, by \$3,500 per month, as compared to the monthly amount of the service fee in the tenth year of the term of the Contract.

Recommendations: Review the QCR prior to submission to Corrections and ensure the amounts reported are accurate.

Revise and resubmit the 2008-09 QCR to properly reflect the Service Fee.

APPENDIX A

SCHEDULE OF REPORTED AND  
AUDITED REVENUE AND EXPENDITURES

<b>Shafter Community Correctional Facility Contract R96.1591.104 Schedule of Reported and Audited Revenue and Expenditures For the Period July 1, 2006 through June 30, 2007</b>				
<b>Category</b>	<b>Contract Budget</b>	<b>Reported</b>	<b>Questioned</b>	<b>Audited</b>
Revenue	\$8,831,400	\$8,312,909	\$ 24,207 <sup>1</sup>	\$8,337,116
ITRF Transfers In	<u>0</u>	<u>0</u>	<u>80,733</u> <sup>1</sup>	<u>80,733</u>
Total Revenue	<u>\$8,831,400</u>	<u>\$8,312,909</u>	<u>\$104,940</u>	<u>\$8,417,849</u>
Expenditures:				
Program Salaries and Benefits	\$3,868,176	\$3,866,638	0	\$3,866,638
Training	14,493	23,731	0	23,731
Food and Clothing	549,490	558,129	\$ (5,629) <sup>2</sup>	552,500
Medical Services	4,167	9,726	0	9,726
Inmate Program	5,000	36,342	0	36,342
Transportation	40,289	50,119	0	50,119
Consultant	0	6,962	0	6,962
Depreciation – Building	48,000	48,000	0	48,000
Depreciation – Equipment	48,000	48,000	0	48,000
Administrative Overhead	380,304	380,304	0	380,304
Operating Expenses	669,986	909,107	85,177 <sup>1,2</sup>	994,284
Lease/Use Costs	1,881,275	1,881,212	0	1,881,212
Insurance	<u>260,135</u>	<u>284,191</u>	<u>0</u>	<u>284,191</u>
Total Expenditures	<u>\$7,769,315</u>	<u>\$8,102,461</u>	<u>\$ 79,548</u>	<u>\$8,182,009</u>
Profit/(Loss)				<u>\$ 235,840</u>
Service Fee	<u>\$1,062,085</u>	<u>\$ 691,464</u>	<u>\$ 0</u>	<u>\$ 691,464</u>

<sup>1</sup> Refer to Finding 2.

<sup>2</sup> Refer to Finding 3.

APPENDIX A (Continued)

SCHEDULE OF REPORTED AND  
AUDITED REVENUE AND EXPENDITURES

<b>Shafter Community Correctional Facility Contract R96.1591.104 Schedule of Reported and Audited Revenue and Expenditures For the Period July 1, 2007 through June 30, 2008</b>				
Category	Contract Budget	Reported	Questioned	Audited
Revenue	\$9,077,837	\$9,385,636	\$ 46,328 <sup>1</sup>	\$9,431,964
ITRF Transfers In	<u>0</u>	<u>0</u>	<u>330,456</u> <sup>1</sup>	<u>330,456</u>
Total Revenue	<u>\$9,077,837</u>	<u>\$9,385,636</u>	<u>\$376,784</u>	<u>\$9,762,420</u>
Expenditures:				
Program Salaries and Benefits	\$3,979,357	\$4,271,022	0	\$4,271,022
Training	14,493	25,288	0	25,288
Inmate Food and Clothing	566,595	640,409	\$ (8,807) <sup>2</sup>	631,602
Medical Services	5,000	15,391	0	15,391
Inmate Program	6,000	15,896	0	15,896
Transportation	40,289	51,255	0	51,255
Consultant	0	25,426	0	25,426
Depreciation – Building	48,000	48,000	0	48,000
Depreciation – Equipment	48,000	48,000	0	48,000
Administrative Overhead	380,304	380,304	0	380,304
Operating Expenses	684,454	801,309	75,653 <sup>1,2</sup>	876,962
Lease/Use Costs	1,880,585	1,880,791	0	1,880,791
Insurance	<u>260,135</u>	<u>329,055</u>	<u>0</u>	<u>329,055</u>
Total Expenditures	<u>\$7,913,212</u>	<u>\$8,532,146</u>	<u>\$ 66,846</u>	<u>\$8,598,992</u>
Profit/(Loss)				<u>\$1,163,428</u>
Service Fee	<u>\$1,164,625</u>	<u>\$ 1,164,625</u>	<u>\$ 0</u>	<u>\$1,164,625</u>

<sup>1</sup> Refer to Finding 2.

<sup>2</sup> Refer to Finding 3.

APPENDIX A (Continued)

SCHEDULE OF REPORTED AND  
AUDITED REVENUE AND EXPENDITURES

<b>Shafter Community Correctional Facility Contract R96.1591.104 Schedule of Reported and Audited Revenue and Expenditures For the Period July 1, 2008 through June 30, 2009</b>				
<b>Category</b>	<b>Contract Budget</b>	<b>Reported</b>	<b>Questioned</b>	<b>Audited</b>
Revenue	\$9,056,288	\$ 9,235,399	\$25,239 <sup>1</sup>	\$9,260,638
ITRF Transfers In	0	127,752	(48,304) <sup>1</sup>	79,448
Total Revenue	<u>\$9,056,288</u>	<u>\$ 9,363,151</u>	<u>(\$23,065)</u>	<u>\$9,340,086</u>
<b>Expenditures:</b>				
Program Salaries and Benefits	\$3,979,357	\$ 4,508,431	0	\$4,508,431
Training	14,493	48,436	0	48,436
Food and Clothing	565,306	584,094	\$(5,331) <sup>2</sup>	578,763
Medical Services	5,000	9,461	0	9,461
Inmate Program	6,000	13,298	0	13,298
Transportation	40,289	44,025	0	44,025
Consultant	0	17,439	0	17,439
Depreciation – Building	48,000	48,000	0	48,000
Depreciation – Equipment	48,000	48,000	0	48,000
Administrative Overhead	380,304	380,304	0	380,304
Operating Expenses	684,454	895,342	77,561 <sup>1,2</sup>	972,903
Lease/Use Costs	1,881,325	1,880,995	0	1,880,995
Insurance	260,135	321,640	0	321,640
Total Expenditures	<u>\$7,912,663</u>	<u>\$ 8,799,465</u>	<u>\$72,230</u>	<u>\$8,871,695</u>
Profit/(Loss)				<u>\$ 468,391</u>
Service Fee	<u>\$1,143,625</u>	<u>\$ 1,164,625</u>	<u>(\$21,000) <sup>3</sup></u>	<u>\$1,143,625</u>

<sup>1</sup> Refer to Finding 2

<sup>2</sup> Refer to Finding 3

<sup>3</sup> Refer to Finding 5

APPENDIX B  
INMATE WELFARE FUND  
BALANCES

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<b>Shafter Community Correctional Facility Contract R96.1591.104 Inmate Welfare Fund Balances For the Period July 1, 2006 through June 30, 2009</b>			
	<b>July 1, 2006 through June 30, 2007</b>	<b>July 1, 2007 through June 30, 2008</b>	<b>July 1, 2008 through June 30, 2009</b>
Beginning Balance	\$ 0	\$ 0	\$ 0
Deposits	348,438	392,067	269,021
Disbursements	(485,820)	(500,398)	(443,015)
Transfers In <sup>1</sup>	<u>137,382</u>	<u>108,331</u>	<u>173,994</u>
<b>Ending Balance</b>	<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>

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<sup>1</sup> Transfers In represents funds received from ITRF in support of IWF operating deficiency.

APPENDIX C  
 INMATE TELEPHONE REVENUE FUND  
 BALANCES

<b>Shafter Community Correctional Facility            Contract R96.1591.104            Inmate Telephone Revenue Fund Balances            For the Period July 1, 2006 through June 30, 2009</b>			
	<b>July 1, 2006 through June 30, 2007</b>	<b>July 1, 2007 through June 30, 2008</b>	<b>July 1, 2008 through June 30, 2009</b>
Beginning Balance	\$ 159,928	\$ 0	\$ 0
Receipts:			
Commissions	44,105	369,506	250,521
Interest <sup>1</sup>	8,828	8,189	2,921
Transfers In	<u>8,194<sup>2</sup></u>	<u>61,092<sup>3</sup></u>	<u>0</u>
Total Receipts	<u>\$ 61,127</u>	<u>\$438,787</u>	<u>\$253,442</u>
Disbursements			
Phone Card Expense	\$ 2,940	\$ 0	\$ 0
Transfers Out:			
IWF <sup>1</sup>	137,382	108,331	173,994
Operations <sup>1</sup>	<u>80,733</u>	<u>330,456</u>	<u>79,448</u>
Total Transfers out	<u>218,115</u>	<u>438,787</u>	<u>253,442</u>
Total Disbursements	<u>\$ 221,055</u>	<u>\$438,787</u>	<u>\$253,442</u>
<b>Ending Balance</b>	<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>

<sup>1</sup> Represents audited amounts. See Finding 2.

<sup>2</sup> Represents return of prior transfers in excess of Facility operating deficits.

<sup>3</sup> May and June 2008 commission accrual.

APPENDIX D  
EQUIPMENT REPLACEMENT FUND  
BALANCES

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<b>Shafter Community Correctional Facility Contract R96.1591.104 Equipment Replacement Fund Balances For the Period July 1, 2006 through June 30, 2009</b>			
	<b>July 1, 2006 through June 30, 2007</b>	<b>July 1, 2007 through June 30, 2008</b>	<b>July 1, 2008 through June 30, 2009</b>
Beginning Balance	\$ 487,969	\$ 520,013	\$ 565,978
Deposits	74,111	71,238	61,019
Disbursements	(42,067)	(25,273)	(52,000)
<b>Ending Balance</b>	<b><u>\$ 520,013</u></b>	<b><u>\$ 565,978</u></b>	<b><u>\$ 574,997</u></b>

APPENDIX E  
 BUILDING REPLACEMENT FUND  
 BALANCES

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<b>Shafter Community Correctional Facility            Contract R96.1591.104            Building Replacement Fund Balances            For the Period July 1, 2006 through June 30, 2009</b>			
	<b>July 1, 2006            through            June 30, 2007</b>	<b>July 1, 2007            through            June 30, 2008</b>	<b>July 1, 2008            through            June 30, 2009</b>
Beginning Balance	\$ 554,545	\$ 632,253	\$ 708,377
Receipts	48,000	48,000	48,000
Interest	29,708	28,124	15,350
Disbursements	_____(0)	_____(0)	_____(98,200)
<b>Ending Balance</b>	<b><u>\$ 632,253</u></b>	<b><u>\$ 708,377</u></b>	<b><u>\$ 673,527</u></b>

**A**PPENDIX **F**  
**D**EBT **S**ERVICE **F**UND  
**B**ALANCES

<b>Shafter Community Correctional Facility</b> <b>Contract R96.1591.104</b> <b>Debt Service Fund Balances</b> <b>For the Period July 1, 2006 through June 30, 2009</b>			
	<b>July 1, 2006 through June 30, 2007</b>	<b>July 1, 2007 through June 30, 2008</b>	<b>July 1, 2008 through June 30, 2009</b>
Beginning Balance	\$ 1,295,607	\$ 1,179,536	\$ 1,317,593
Receipts:			
Deposits	2,754,646	3,302,622	1,884,668
Interest	<u>890,733</u>	<u>419,376</u>	<u>0</u>
Total Receipts	\$ 3,645,379	\$ 3,721,998	\$ 1,884,668
Disbursements:			
Principle	(2,870,723)	(3,164,308)	(1,882,725)
Interest	<u>(890,727)</u>	<u>(419,633)</u>	<u>(0)</u>
Total Disbursements	(\$ 3,761,450)	(\$ 3,583,941)	(\$ 1,882,725)
<b>Ending Balance</b>	<b><u>\$ 1,179,536</u></b>	<b><u>\$ 1,317,593</u></b>	<b><u>\$ 1,319,536</u></b>

APPENDIX G  
DEBT SERVICE FUND RESERVE  
BALANCES

<b>Shafter Community Correctional Facility Contract R96.1591.104 Debt Service Reserve Fund Balances For the Period July 1, 2006 through June 30, 2009</b>			
	<b>July 1, 2006 through June 30, 2007</b>	<b>July 1, 2007 through June 30, 2008</b>	<b>July 1, 2008 through June 30, 2009</b>
Beginning Balance	\$ 1,883,717	\$ 1,973,235	\$ 1,883,717
Receipts:			
Interest	89,518	60,334	9,159
Disbursements:			
Transfers <sup>1</sup>	(0)	(149,852)	(8,743)
<b>Ending Balance</b>	<b><u>\$ 1,973,235</u></b>	<b><u>\$ 1,883,717</u></b>	<b><u>\$ 1,884,133</u></b>

<sup>1</sup> Amounts in excess of Reserve Account Requirement are remitted to the Trustee and available for debt service per the Shafter Joint Powers Financing Authority and First Trust of California, national Association Indenture—Reserve Accounts.





336 Pacific Avenue Shafter, California 93263

May 23, 2011

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

Dear Mr. Botelho:

Pursuant to your Draft Audit Report – Shafter Community Correctional Facility (CCF) Contract R96.1591.104, issued May 12, 2011, we are submitting the written responses for each finding outlined in the draft audit report. Further, it is our understanding that these written responses will be included in the final report issued by your department.

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

Sincerely,

Original signed by:

John D. Guinn  
City Manager

AUDIT FINDING	RECOMMENDATION	CITY OF SHAFTER RESPONSE
<p><b>Finding 1:</b> Overstatement of Operating Loss</p>	<p>Revise and resubmit the fiscal year 2006-07, 2007-08 and 2008-09 QCRs to properly present the operating Net Profit (Loss).</p>	<p>The City will revise and resubmit, within 30 days of the final audit report issuance, the 2006-07, 2007-08 and 2008-09 QCRs to remove the line item "Non Renewable Revenues." Each future year will include this line item until the filing of the 4<sup>th</sup> quarter QCR whereas if the contract is cancelled by Cal Trans, associated staffing reductions will be made in accordance with Exhibit B.1 of contract #R96.1591.104.</p> <p>The amount of the Service Fee will be removed from program revenue to properly present the operating net profit (loss).</p>
<p><b>Finding 2:</b> Reported Amounts Are Not Consistent With Accounting Records</p>	<p>Revise and resubmit the fiscal year 2006-07, 2007-08 and 2008-09 QCRs to properly reflect all of the Facility's transactions.</p>	<p>The CDCR requires all QCRs to be submitted to them within 45 days of the end of the quarter. The potential penalty for not meeting this deadline is the suspension of program revenue payments and this would create a fiscal crisis for the City of Shafter. Further, sending a revised QCR would be confusing to CDCR and have the potential to convolute year end accuracy of the final program revenue and expenses. Therefore it is the City's recommendation that the 4<sup>th</sup> quarter QCR filing requirement be on or before the State Controller's Report is due (October 18<sup>th</sup> of each year).</p>
<p><b>Finding 3:</b> Misclassified Expenditures</p>	<p>Ensure the City follows the Handbook guidelines when classifying and recording expenditures in its general ledger.</p> <p>Revise and resubmit the fiscal year 2006-07, 2007-08, and 2008-09 QCRs to properly reflect allowable operating and food and clothing expenses.</p>	<p>Corrected, the City will follow the guidelines in the Financial Management Handbook when classifying and recording expenditures.</p>
<p><b>Finding 4:</b> Inadequate Controls over Fixed Assets</p>	<p>Ensure a periodic inventory of equipment is conducted, the Equipment List submitted to Corrections is accurate, equipment purchases comply with required bid processes, and equipment with contract funds is appropriately tagged.</p>	<p>Corrected, the City will conduct annual inventories of the non expendable equipment, submit an accurate list to CDCR and follow established bid procedures.</p>

AUDIT FINDING	RECOMMENDATION	CITY OF SHAFTER RESPONSE
<p><b>Finding 5:</b> Overstatement of Service Fee</p>	<p>Review the QCR prior to submission to Corrections and ensure the amounts reported are accurate.</p> <p>Revise and resubmit the 2008-09 QCR to properly reflect the Service Fee.</p>	<p>Corrected, the City made the adjusting journal entry after the "books were closed" for that fiscal year. All future year's service fee has been and will be properly reported.</p>

## EVALUATION OF RESPONSE

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We have reviewed the City of Shafter's (City) May 23, 2011 response to our draft report, which is incorporated into this final report. In this evaluation, we do not provide additional comments on findings where the City agrees, or proposes adequate action. However, for findings where the City did not agree, did not propose adequate action, or where we deem additional comments necessary, we provide the following evaluation:

### **Finding 1: Overstatement of Operating Loss**

The City agrees with our recommendation to revise and resubmit the Quarterly Cost Reports (QCR) for fiscal years 2006-07, 2007-08, and 2008-09. However, the City states it will continue to include the "Non Renewable Revenues" deduction in its calculation of the Operating Net Profit (Loss) for future QCR's until the 4<sup>th</sup> quarter QCR; whereas, if the contract with Caltrans is cancelled, the City will report associated staffing reductions. We disagree with the City's plan to continue to deduct Caltrans' revenues from its Operating Net Profit (Loss) reported in the QCRs.

The Financial Management Handbook for Community Correctional Facilities dated July 1989 (Handbook), section III, states that program income consists of, but is not limited to contract revenues. We reiterate our position that the City should include these revenues in its calculation of Operating Net Profit (Loss) to properly reflect the operations of the facility for each quarterly QCR submitted.

### **Finding 2: Reported Amounts Are Not Consistent With Accounting Records**

The City contends that submitting revised QCRs to Corrections would be confusing and have the potential to convolute the year end accuracy of the final program revenue and expenses. The City requests to file the 4<sup>th</sup> quarter QCR on or before October 18<sup>th</sup> of each year, rather than within the 45 days currently required by the Handbook.

We disagree that submitting revised QCRs that properly reflect the actual Facility transactions would cause confusion or convolute the year end accuracy of the final program revenue and expenses. Additionally, per the Handbook, section II A, any changes in the contract terms, Handbook requirements, or other contract documents require advance approval from Corrections; therefore, we defer comment on the City's request to submit the 4<sup>th</sup> quarter QCR on or before October 18<sup>th</sup> of each year to Corrections.