



Transmitted via e-mail

July 8, 2014

Jeffrey A. Beard, Ph. D., Secretary
California Department of Corrections
and Rehabilitation
P.O. Box 942883
Sacramento, CA 94283-0001

Dear Dr. Beard:

Final Report—California Department of Corrections and Rehabilitation, Combined Inmate Welfare Fund for the Fiscal Years Ended June 30, 2012 and June 30, 2011

The Department of Finance, Office of State Audits and Evaluations, has completed its financial audit of the California Department of Corrections and Rehabilitation's (CDCR) Inmate Welfare Fund (Fund) for the fiscal years ended June 30, 2012 and June 30, 2011.

CDCR's response to the report findings is incorporated into this final report. CDCR agreed with our findings and we appreciate its willingness to implement corrective actions. The findings in our report are intended to assist management in improving Fund operations. This report will be placed on our website.

We appreciate the cooperation and assistance of CDCR staff during our audit. If you have any questions regarding this report, please contact Cheryl McCormick, Assistant Chief, at (916) 322-2985.

Sincerely,

Original signed by:

Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Mr. Martin Hoshino, Undersecretary of Operations, California Department of Corrections and Rehabilitation
Ms. Diana Toche, Undersecretary, Administration and Offender Services, California Department of Corrections and Rehabilitation
Mr. Scott Carney, Director, Division of Administrative Services, California Department of Corrections and Rehabilitation
Mr. Bryan Beyer, Director, Internal Oversight and Research, California Department of Corrections and Rehabilitation
Ms. Lori Zamora, Deputy Director, Office of Audits and Court Compliance, California Department of Corrections and Rehabilitation
Mr. Jason Lopez, Deputy Director (A), Fiscal Services, California Department of Corrections and Rehabilitation
Mr. William Bramer, Associate Director, Accounting Services, California Department of Corrections and Rehabilitation
Mr. Jaime Corvera, Accounting Administrator III, Accounting Services, California Department of Corrections and Rehabilitation
Ms. Michele Gomez-Essex, Accounting Administrator II, Accounting Services, Inmate Welfare Fund, California Department of Corrections and Rehabilitation
Ms. Linda Wong, External Audits Manager, Office of Audits and Court Compliance, California Department of Corrections and Rehabilitation

A F_{INANCIAL} S_{TATEMENT} A_{UDIT}

California Department of Corrections and Rehabilitation
Combined Inmate Welfare Fund
For the Fiscal Years Ended
June 30, 2012 and June 30, 2011

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 (CDCR) 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, 2012 and 2011. 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 CDCR, 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, 2011.
- The Combined Balance Sheet is fairly stated and materially correct for the fiscal year ended June 30, 2012.
- The Combined Statement of Revenues, Expenses and Changes in Fund Balance (statutory basis), except for Rent Expense, are fairly stated and materially correct for the fiscal years ended June 30, 2012 and 2011.
- Material internal control weaknesses were identified relating to CDCR's fiscal management practices.
- Material compliance weaknesses were identified relating to fixed and intangible assets and rent expense.
- Suggestions for improving the Fund's oversight and operations are included in the Findings and Recommendations section of this report.

INDEPENDENT AUDITOR'S REPORT

Jeffrey A. Beard, Ph. D., 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, 2011, and have audited the accompanying Combined Balance Sheet (statutory basis) of the Fund as of June 30, 2012, and 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 (CDCR) and institution management. Our responsibility is to express an opinion on these financial statements based on our audit.¹

Except as discussed in the following paragraph, 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 discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of CDCR or the State of California, as of June 30, 2012 and 2011, or the results of operations or changes in their financial position for the years then ended.

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 CDCR, which comprise a comprehensive basis of accounting other than *Generally Accepted Accounting Principles*.

¹ Because of a scope limitation, we do not express an opinion on the Combined Balance Sheet (statutory basis) as of June 30, 2011.

Relevant evidence and supporting documentation was not maintained substantiating the \$980,039 Due from General Fund balance, which is a component of Due from Other Funds, reported in the Combined Balance Sheet as of June 30, 2011. Additionally, Revolving Fund Cash totaling \$600,000 was not recorded in the accounting records or included in the Combined Balance Sheet as of June 30, 2011. Due to the lack of relevant evidence and supporting documentation, the validity of the amounts and the accounts impacted were indeterminable.

Sufficient supporting documentation did not exist to substantiate the rental rate used to calculate Rent Expense of \$1,091,936 reported in the Combined Statement of Revenues, Expenses, and Changes in Fund Balance for the years ended June 30, 2012 and 2011.

Because of the matters discussed in the preceding 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, 2011.

In our opinion, the Combined Balance Sheet as of June 30, 2012, and the Combined Statement of Revenues, Expenses, and Changes in Fund Balance (statutory basis) for the years ended June 30, 2012 and 2011, except for Rent Expense, present fairly, in all material respects, the financial position of the Fund as of June 30, 2012, and 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 Fund's financial statements. 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 Balance Sheet as of June 30, 2012 and the Combined Statement of Revenues, Expenses, and Changes in Fund Balance, except for Rent Expense, for the years ended June 30, 2012 and 2011.

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, 2012 and 2011, in accordance with auditing standards generally accepted in the United States of America, we considered CDCR'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 CDCR's internal control. Accordingly, we do not express an opinion on the effectiveness of CDCR's internal control.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of CDCR's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control that we consider to be material weaknesses. See Findings 1 and 2 in the Findings and Recommendations section for details.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CDCR'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 instances of noncompliance that are required to be reported under *Government Auditing Standards*. See Findings 2, 3 and 4 in the Findings and Recommendations section for details.

We noted certain matters that we reported to CDCR management in a separate letter dated July 8, 2014.

This report is intended solely for the information and use of CDCR and institution management, those charged with governance, and others within CDCR, 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:

Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations

May 30, 2014

FINDINGS AND RECOMMENDATIONS

Significant weaknesses exist within the California Department of Corrections and Rehabilitation's (CDCR) fiscal operations which compromise its ability to prepare and present reliable and accurate financial statements for the Inmate Welfare Fund (Fund).

Finding 1 Accounting and Financial Reporting Need Improvement

We observed inadequate internal controls over CDCR's accounting and financial reporting processes related to the Fund as follows:

- Insufficient review of financial reports resulted in incorrect, unsupported and unexplained account balances and material journal entries.
- Untimely and/or lack of account balance reviews and reconciliations including:
 - Bank reconciliations incomplete at year-end.
 - Insufficient review and identification of Fund obligations at year-end resulting in significant over/under accrual of certain expenditures.

The State Administrative Manual (SAM) section 20050 requires state entity heads, by reason of their appointments, to be accountable for activities carried out in their agencies. This responsibility includes establishment and maintenance of internal accounting and administrative controls. The ultimate responsibility for strong internal controls rests with management.

SAM section 7900 requires departments to reconcile account balances to supporting documentation such as invoices, receipts, etc. to ensure the accuracy and completeness of transactions posted to the accounts. In addition, reconciliations must be completed between the department accounts and the accounts maintained by the State Controller's Office to disclose errors as they occur. Corrections to errors should be made before financial reports are prepared to ensure the accuracy of a department's financial reports.

The Financial Integrity and State Manager's Accountability Act (FISMA) outlined in Government Code (GC) 13400 through 13407 states that all levels of management must provide active, ongoing oversight and monitoring processes for the prevention and early detection of fraud and errors in program administration, and must routinely monitor, evaluate, and improve internal controls when necessary. Internal accounting controls comprise the methods and procedures directly associated with safeguarding assets and assuring the reliability of accounting data.

Furthermore, GC 13403 states the elements of a satisfactory system of internal accounting and administrative controls shall include a system of authorization and record keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues and expenditures.

Noncompliance with SAM and FISMA requirements for active, ongoing oversight resulted in significant misstatements in the Fund financial statements which were not detected by CDCR management prior to preparation of the financial reports. The most significant misstatements include, but are not limited to:

Fiscal Year	Account	Over/(Under)Statement Amount
2010-11	Due from General Fund	\$ 980,039
2010-11	Administration Expense	871,612
2010-11	Due to General Fund	(3,542,517)
2010-11	Revolving Fund (General Cash)	(600,000)
2010-11	Prior Year Expense	518,354
2011-12	Claims Filed	(518,560)
2011-12	Cost of Goods Sold	104,149
2011-12	Accounts Payable	187,025

The magnitude of the misstatements has hindered CDCR's ability to produce reliable and accurate financial information for its stakeholders and led us to conclude there is considerable lack of monitoring and evaluation of the internal controls to assure reliability of the accounting data. These weaknesses contributed to the disclaimer of opinion on the Fund's Combined Balance Sheet as of June 30, 2011.

Recommendations:

- A. Develop policies and procedures that ensure the active, ongoing oversight and monitoring of fiscal internal controls.
- B. Implement procedures to ensure financial information is supported, periodically reviewed, and reconciled timely. Variances should be investigated and resolved timely.

Finding 2 Lack of Written Policies and Procedures

A current Fund Accounting Policy Manual and formal policies and procedures for year-end Fund accounting activities do not exist. CDCR has not updated its Fund Accounting Policy Manual since 1976. Significant changes in the accounting function have occurred during this time, including the implementation of accounting information systems such as TRACS¹ and SAP.² Additionally, the Fund's accounting functions have been decentralized and are now performed by CDCR's general accounting unit and Regional Accounting Offices.

SAM section 7150 states that Proprietary Funds often require complete special manuals of accounting instructions that should be prepared by the departments, based upon principles prepared by or approved by the Fiscal Systems and Consulting Unit (FSCU) within the Department of Finance. The manual should be sent to FSCU for general review before being placed into effect. CDCR is responsible for keeping their accounting manuals current.

The lack of a current Fund Accounting Policy Manual results in confusion and inconsistent/inappropriate treatment of accounting transactions and significantly impairs CDCR's ability to produce reliable and accurate financial information.

¹ Restitution Accounting and Canteen System.

² Systems Applications and Products in Data Processing.

Recommendations:

- A. CDCR should create written policies and procedures that include, but are not limited to:
 - A determination of the appropriate basis of accounting and financial reporting for the Fund.
 - Policies and procedures to ensure regular reconciliations of all account balances.
 - Policies and procedures to ensure that all necessary year-end activities are assigned and completed in a timely manner.
 - Appropriate treatment of encumbrances for state and financial reporting purposes.
- B. Periodically review and revise documented policies and procedures for efficiency and effectiveness and to ensure information reflects CDCR's current operating practices.

Finding 3 Inaccurate Accounting of Fixed and Intangible Assets

Fixed and intangible assets are not accurately recorded in CDCR's SAP accounting system. Additionally, CDCR did not correctly depreciate the Fund's fixed assets or amortize intangible assets. Specifically, only fixed assets acquired after 2008 are recorded in SAP and depreciated. Intangible assets are not currently recorded in SAP and the amortization schedule failed to include \$150,000 of TRACS-related software costs, as recommended during our prior audit.

SAM 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.

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

Although CDCR maintains a manual spreadsheet of Fund fixed and intangible assets, the official underlying SAP accounting records do not support the amounts recorded in the financial statements and increase the risk of material error and misstatement. Further, only depreciating a portion of fixed assets and inaccurately amortizing intangible assets can mislead users of the financial reports by misstating assets and expenditures. See Notes to the Financial Statements 2B for CDCR's policy regarding Equipment and Intangible Assets.

Recommendations:

- A. Record and track all Fund capitalized fixed assets and intangible assets in SAP.
- B. Implement policies and procedures to depreciate fixed assets and amortize intangible assets. Ensure policies include periodic review and verification of amounts calculated and recorded.
- C. Revise the intangible asset amortization schedule to include the additional \$150,000 TRACS software costs.

Finding 4 Unsupported Rent Expense

Rent Expense totaling \$1,091,936 in fiscal years 2010-11 and 2011-12 was not adequately supported. CDCR does not have a documented methodology for determining the rent expense charged to the Fund and allocated to institution canteens. Further, the documentation provided to corroborate the amounts allocated contained unsupported information and incorrect calculations and assumptions.

SAM section 9203 requires departments to document and retain their cost allocation procedures and methodology in a cost allocation plan. This plan should be supported by appropriately cross-referenced working papers or system documentation, updated periodically, and retained for reference and audit purposes.

Without a documented rent expense allocation methodology, and accurate supporting documentation, the rent expense charged to the Fund and allocated to institution canteens cannot be evaluated for accuracy and appropriateness. Therefore, we qualified our opinion on the Combined Statements of Revenues, Expenses, and Changes in Fund Balance (statutory basics) for the years ended June 30, 2012 and 2011.

Recommendations:

- A. Develop an allocation methodology for rent expense in accordance with SAM section 9203.
- B. Formally document the rent expense allocation methodology and retain supporting documentation for audit.
- C. Ensure costs charged to the Fund and allocated to institution canteens are reviewed for accuracy and consistency with the documented allocation plan.

BALANCE SHEET - STATUTORY BASIS

**California Department of Corrections and Rehabilitation
Inmate Welfare Fund
Combined Balance Sheet—Statutory Basis
As of June 30, 2012 and June 30, 2011**

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
ASSETS		
Cash	\$ 1,610,611	\$ 1,270,990
Deposits in Surplus Money Investment Fund	12,665,000	14,572,000
Accounts Receivable	24,711	12,309
Due from General Fund	-	980,039
Due from Other Funds	1,289,650	1,209,407
Canteen Merchandise for Resale	3,291,883	3,188,480
Equipment	2,610,001	2,656,586
Intangible Asset (Note 2)	1,125,000	1,200,000
Other -- Prepaid Items	<u>419</u>	<u>-</u>
Total Assets	<u>\$ 22,617,275</u>	<u>\$ 25,089,811</u>
LIABILITIES AND FUND EQUITY		
Liabilities:		
Accounts Payable	\$ 293,137	\$ 83,509
Claims Filed	1,615,350	1,808,841
Due to Other Funds	1,576,656	3,584,075
Advanced Collections	42,993	73,477
Uncleared Collections	<u>261</u>	<u>580</u>
Total Liabilities	3,528,397	5,550,482
Fund Equity:		
Investment in Equipment	2,610,001	2,656,586
Fund Balance:		
Deferred Payroll	1,275,914	1,191,883
Unreserved/Undesignated	<u>15,202,963</u>	<u>15,690,860</u>
Total Fund Balance	<u>16,478,877</u>	<u>16,882,743</u>
Total Fund Equity	<u>19,088,878</u>	<u>19,539,329</u>
Total Liabilities and Fund Equity	<u>\$ 22,617,275</u>	<u>\$ 25,089,811</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, 2012 and June 30, 2011

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Operating Activity		
Net Canteen Sales	\$ 51,103,337	\$ 52,245,744
Less: Cost of Goods Sold	<u>30,604,174</u>	<u>30,761,519</u>
Gross Margin from Canteen Sales	20,499,163	21,484,225
Less: Personal Services	14,149,446	13,751,774
Supplies & Equipment	271,818	329,103
Amortization Expense	75,000	75,000
Inmate Pay	<u>91,634</u>	<u>92,060</u>
Total Canteen Expenses	<u>14,587,898</u>	<u>14,247,937</u>
Income From Canteen Sales	5,911,265	7,236,288
Photo Project Revenue	581,086	566,407
Less: Photo Project Supplies	117,389	101,710
Inmate Pay	<u>2,498</u>	<u>2,676</u>
Income From Photo Project	461,199	462,021
Handicraft Revenue	5,256	4,989
Less: Handicraft Supplies and Expenses	131	-
Inmate Pay	<u>3,013</u>	<u>2,510</u>
Income From Handicraft Project	<u>2,112</u>	<u>2,479</u>
Income From Operating Activity	6,374,576	7,700,788
Non-Operating Activity		
Non-Operating Revenue:		
Special Purchase Surcharge	88,510	90,579
Interest on Investments	57,555	60,278
Misc. Non-operating Revenue	<u>150,554</u>	<u>334,395</u>
Total Non-operating Revenue	<u>296,619</u>	<u>485,252</u>

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

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

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Non-Operating Expenses:		
Administrative Expense	1,740,609	1,395,357
Rent Expense	1,091,936	1,091,936
Audit Expense	124,043	395,403
Inmate Benefits:		
Visitor Program - Friends Outside	2,774,104	2,501,155
Education - GED Related	347,045	264,272
Movie Rental	355,675	352,965
TV Services	171,570	139,249
Awards	58,559	56,329
Telephone - Visitor Hotline	23,986	23,986
Library	16,927	25,319
Entertainment	4,698	1,810
Other	109	-
Total Non-Operating Expenses	<u>6,709,261</u>	<u>6,247,781</u>
Income (Loss) from Non-Operating Activity	(6,412,642)	(5,762,529)
Current Year Net Income (Loss)	(38,066)	1,938,259
Prior Year Adjustments	<u>(31,003)</u>	<u>(94,586)</u>
Total Net Income (Loss)	<u>(69,069)</u>	<u>1,843,673</u>
Beginning Fund Equity	19,539,329	19,843,160
Adjustments to beginning fund balance (Note 4)	<u>(334,797)</u>	<u>(551,518)</u>
Adjusted Beginning Fund Equity	19,204,532	19,291,642
Net Additions (Deletions) to Fixed Assets	<u>(46,585)</u>	<u>(1,595,986)</u>
Ending Fund Equity	<u>\$ 19,088,878</u>	<u>\$ 19,539,329</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, 2012 and 2011

1. Definition of the Reporting Entity

The Inmate Welfare Fund (Fund), administered by the California Department of Corrections and Rehabilitation (CDCR), was created by Chapter 102, Statutes of 1945. The CDCR 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.

CDCR maintains separate accountability for each institution's Fund operations. The CDCR'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 CDCR 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 CDCR 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, 2012 and 2011 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

Proprietary/Enterprise Fund under Generally Accepted Accounting Principles (GAAP) and 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 GAAP.

Income

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.

Operating revenue is defined as revenue from canteen sales, photo sales, and handicraft activities. Non-operating revenue is comprised of surcharges, investment interest, and other miscellaneous revenue.

Expenses

During the fiscal year, expenses are recognized when claims to the State Controller are filed against a valid appropriation, or when funds are transferred to the State Payroll Revolving Fund for the payment of salaries and wages. Expenses include obligations incurred but not paid by June 30. Encumbrances at year-end in the form of purchase orders or contracts are excluded from liabilities and expenditures.

Equipment

Equipment (assets) is 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.

CDCR has elected not to depreciate the Fund's capitalized equipment or recognize the associated depreciation expense since only a portion of Fund equipment is fully accounted for in the SAP¹ accounting system as of the balance sheet dates. This is a departure from GAAP, which requires assets to be depreciated over their useful life by an appropriate method. The effects of this departure from GAAP could not be reasonably determined.

Intangible Asset – Software

The intangible asset—Restitution Accounting and Canteen System (TRACS)—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 total capitalized cost of the TRACS software is \$1,500,000. Using the straight line method, the capitalized cost is being amortized at \$75,000 per year over an estimated 20-year

¹ Systems Applications and Products in Data Processing.

useful life beginning fiscal year 2007-08. The 20-year estimated useful life of the software is the same as its estimated service life, which was based on the years of service provided by the prior automated canteen system.

Annual Amortization Expense and Accumulated Amortization from year software was placed into service:

Fiscal Year	Annual Amortization Expense	Accumulated Amortization	Intangible Asset – Software
2007-08			\$ 1,500,000
2007-08	\$ 75,000	\$ 75,000	1,425,000
2008-09	75,000	150,000	1,350,000
2009-10	75,000	225,000	1,275,000
2010-11	75,000	300,000	1,200,000
2011-12	75,000	375,000	1,125,000

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

CDCR'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 2011-12 and 2010-11.

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. Prompt-payment discounts, vendor rebates, and other adjustments are posted to cost of sales. This is a departure 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 inventory and cost of goods sold is immaterial.

I. Fund Balance

The Fund's Fund Balance is the excess of total assets over total liabilities and investment in equipment. The Fund's fund balance is classified as restricted. Restricted fund balances include resources that are subject to constraints that are enforceable legal restrictions such as the Fund's enabling legislation, Penal Code 5006. The fund balance was encumbered for Education Services in the amounts of \$340,869 in Fiscal Year 2010-11 and \$187,025 in Fiscal Year 2011-12. In the prior audit fiscal year 2008-09 and 2009-10 financial statements, the fund balance was referred to as retained earnings.

3. Deposits in Surplus Money Investment Fund

Deposits in Surplus Money Investment Fund (SMIF) consist of non-inmate cash in excess of current needs. 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. All earnings derived from investments of the SMIF are apportioned to the contributing fund as provided in the Government Code. The participant shares are valued on an amortized cost basis, which approximates fair value. Because the difference between the amortized cost and fair value are not material, no adjustment has been made to the financial

statements. For disclosures related to investment policy and related investment categories, see the State of California Comprehensive Annual Financial Report.

4. Adjustments to Beginning Fund Balance

There were adjustments to the beginning Fund Balance attributed to the correction of accounting and financial reporting errors, recognition of deferred payroll expense, and a change in accounting for the intangible asset.

Correction of Errors

Corrections were made for significant accounting and financial reporting errors that were attributed to the over- and under-accrual of expenditures and expenditure adjustments lacking sufficient support.

Deferred Payroll Adjustment

Deferred payroll represents the amount of June 2010 payroll expenditures deferred to July 2010 for all state departments paid through the uniform payroll system. Per Control section 12.45 of the Budget Act of 2010, June payroll expenditures will be realized in July of the following fiscal year.

Change in Accounting for Intangible Asset—TRACS Software

Prior to fiscal years 2011-12 and 2010-11, the intangible asset (TRACS software) had been fully expensed, capitalized at net amortized cost and offset with a reserve account. Effective fiscal year 2010-11, a change in accounting for the TRACS software was implemented where the TRACS software is fully capitalized and accumulated amortization and annual amortization expense is recognized. This method is preferable to the previous method as the change in accounting recognizes the expense over the expected service life of the asset rather than in the period the software cost was paid. Further, this method conforms to California State Administrative Manual policies and procedures.

The effect of the correction of errors, deferred payroll adjustment and change in accounting for the intangible asset on fund balance is shown in the following table:

	2012	2011
Beginning Fund Balance, July 1	\$ 16,882,743	\$ 15,590,588
Correction of accounting and financial reporting errors	(334,797)	(2,999,744)
Deferred payroll adjustment	- 0 -	1,173,226
Change in accounting for intangible asset (TRACS)	<u>- 0 -</u>	<u>1,275,000</u>
Net adjustments to beginning balance	<u>(334,797)</u>	<u>(551,518)</u>
Adjusted Beginning Fund Balance, July 1	16,547,946	15,039,070
Total Net Income (Loss)	<u>(69,069)</u>	<u>1,843,673</u>
Ending Fund Balance, June 30	<u>\$ 16,478,877</u>	<u>\$ 16,882,743</u>

5. Education Supplies and Expense

Beginning in fiscal year 2010-11, the CDCR General Education Development (GED) program is funded by the Fund. California Penal Code, section 5006, authorizes the use of Fund monies to pay for the benefits, education, and welfare of inmates of prisons and at institutions under the jurisdiction of CDCR.

CDCR prepares inmates for a successful reintegration into their communities by offering various educational opportunities such as the GED program. Each California Institution has a school principal or GED chief examiner who oversees the GED program. State-trained teachers provide a variety of general education courses to prepare inmates for the GED test. Those who pass the test receive a California High School Equivalency Certificate. While participation in the GED program is voluntary, most institutions are taking advantage of the opportunity provided by the GED program.

6. Subsequent Events

Legislation

Senate Bill 542, signed on September 30, 2012, amends Penal Code section 5006 to allow the use of Fund monies for education programs, specified hobby and recreational programs, inmate family visiting services, leisure-time activities, and assistance with obtaining photo identification from the California Department of Motor Vehicles. CDCR management has established a formal process for requesting and approving the funding of these programs.

Change in Accounting for Equipment

CDCR management has revised the Fund's capitalization criteria to align with state criteria beginning with fiscal year 2012-13. Prior to fiscal year 2012-13, capital assets with a value over \$500 were reported on the financial statements. Beginning in fiscal year 2012-13, assets valued at \$5,000 or greater, as required by the California State Administrative Manual section 8602, will be reported on the financial statements.

Per CDCR management, the prior year Equipment ending balance of \$2,610,001 contained \$469,937 in equipment valued over \$5,000. Therefore, the Equipment beginning balance for fiscal year 2012-13 has been restated to \$469,937.

Canteen Operations Expanded

Canteen operations for two new CDCR institutions opened subsequent to June 30, 2012. Canteen operations commenced at the California Health Care Facility in May 2013 and the California City Correctional Facility in December 2013.

SUPPLEMENTAL INFORMATION

California Department of Corrections and Rehabilitation, Inmate Welfare Fund
Supplemental Schedules of Revenues and Expenses by Institution
For the Fiscal Year Ended June 30, 2012

	ASP	CAL	CCC	CCI	CCWF	CEN	CIM	CIW	CMC	CMF
Operating Activity										
Net Canteen Sales	\$ 2,495,932	\$ 1,638,908	\$ 1,801,569	\$ 1,572,988	\$ 1,768,358	\$ 1,890,545	\$ 1,558,953	\$ 942,382	\$ 2,532,769	\$ 751,394
Less: Cost of Goods Sold	<u>1,491,613</u>	<u>982,011</u>	<u>1,098,874</u>	<u>932,586</u>	<u>1,039,991</u>	<u>1,130,108</u>	<u>928,615</u>	<u>563,376</u>	<u>1,495,927</u>	<u>447,630</u>
Gross Margin from Canteen Sales	1,004,319	656,897	702,695	640,402	728,367	760,437	630,338	379,006	1,036,842	303,764
Less: Personal Services	640,397	445,479	465,622	548,642	411,408	397,010	382,444	243,910	459,712	255,573
Supplies and Equipment	38,739	6,798	9,720	9,048	719	2,131	4,711	1,753	29,225	3,050
Amortization Expense	3,660	2,409	2,690	2,286	2,545	2,776	2,263	1,377	3,668	1,086
Inmate Pay	<u>3,406</u>	<u>3,236</u>	<u>3,875</u>	<u>2,668</u>	<u>2,227</u>	<u>2,757</u>	<u>2,205</u>	<u>1,608</u>	<u>8,480</u>	<u>1,837</u>
Total Canteen Expenses	<u>686,202</u>	<u>457,922</u>	<u>481,907</u>	<u>562,644</u>	<u>416,899</u>	<u>404,674</u>	<u>391,623</u>	<u>248,648</u>	<u>501,085</u>	<u>261,546</u>
Income (Loss) from Canteen Sales	318,117	198,975	220,788	77,758	311,468	355,763	238,715	130,358	535,757	42,218
Photo Project Revenue	32,320	31,690	10,704	11,378	17,320	19,165	11,066	10,007	24,065	4,495
Less: Photo Project Supplies	5,500	3,781	2,246	1,710	2,657	4,161	1,547	1,415	7,414	2,310
Inmate Pay	-	-	120	-	-	-	-	-	233	-
Income (Loss) from Photo Project	<u>26,820</u>	<u>27,909</u>	<u>8,338</u>	<u>9,668</u>	<u>14,663</u>	<u>15,004</u>	<u>9,519</u>	<u>8,592</u>	<u>16,418</u>	<u>2,185</u>
Handicraft Revenue	-	104	262	-	289	-	-	45	-	4
Less: Handicraft Supplies and Expense	-	131	-	-	-	-	-	-	-	-
Inmate Pay	-	<u>329</u>	-	-	<u>158</u>	-	-	-	-	-
Income (Loss) from Handicraft Project	-	<u>(356)</u>	<u>262</u>	-	<u>131</u>	-	-	<u>45</u>	-	<u>4</u>
Income (Loss) from Operating Activity	344,937	226,528	229,388	87,426	326,262	370,767	248,234	138,995	552,175	44,407
Non-Operating Activity										
Non-Operating Revenue:										
Special Purchases Surcharge	1,975	1,972	9,209	1,588	2,581	1,485	2,273	2,335	11,522	1,090
Interest on Investments	2,816	1,839	2,148	1,738	1,974	2,117	1,660	1,061	2,851	844
Miscellaneous Non-Operating Revenue	<u>4,394</u>	<u>19,301</u>	<u>1,066</u>	<u>5,054</u>	<u>16,463</u>	<u>1,186</u>	<u>8,011</u>	<u>4,167</u>	<u>9,762</u>	<u>848</u>
Total Non-Operating Revenue	9,185	23,112	12,423	8,380	21,018	4,788	11,944	7,563	24,135	2,782
Non-Operating Expenses:										
Administrative Expenses	86,858	55,796	62,302	52,944	58,961	64,294	52,411	31,894	84,967	25,161
Rent Expense	53,282	35,070	39,158	33,277	37,059	40,411	32,942	20,046	53,404	15,814
Audit Expenses	6,053	3,984	4,448	3,780	4,210	4,591	3,742	2,277	6,067	1,797
Inmate Benefits:										
Visitor Program - Friends Outside	112,224	77,684	102,457	107,397	69,739	77,909	101,913	41,265	115,943	50,430
Education Services	15,164	5,233	10,704	12,029	1,701	15,279	11,468	1,770	19,233	-
Movie Rental	11,000	11,710	12,460	12,190	10,400	10,710	10,400	7,900	3,250	10,100
TV Services	-	36	20,169	-	-	46,040	-	3,069	20,102	-
Awards	-	2,724	1,228	1,839	-	1,156	3,912	280	-	1,627
Telephone-Visitor Hotline	969	671	885	927	602	673	880	356	1,001	435
Library	-	-	130	-	1,292	-	-	-	-	-
Entertainment	-	598	-	-	-	-	-	228	351	-
Other	-	-	-	-	-	-	-	-	-	-
Total Non-Operating Expenses	<u>285,550</u>	<u>193,506</u>	<u>253,941</u>	<u>224,383</u>	<u>183,964</u>	<u>261,063</u>	<u>217,668</u>	<u>109,085</u>	<u>304,318</u>	<u>105,364</u>
Income (Loss) from Non-Operating Activity	<u>(276,365)</u>	<u>(170,394)</u>	<u>(241,518)</u>	<u>(216,003)</u>	<u>(162,946)</u>	<u>(256,275)</u>	<u>(205,724)</u>	<u>(101,522)</u>	<u>(280,183)</u>	<u>(102,582)</u>
Current year Net Income (Loss)	68,572	56,134	(12,130)	(128,577)	163,316	114,492	42,510	37,473	271,992	(58,175)
Prior Year Adjustment	<u>(2,150)</u>	<u>(6,859)</u>	<u>2,641</u>	<u>774</u>	<u>(2,142)</u>	<u>958</u>	<u>(1,688)</u>	<u>336</u>	<u>201</u>	<u>724</u>
Total Net Income (Loss)	<u>\$ 66,422</u>	<u>\$ 49,275</u>	<u>\$ (9,489)</u>	<u>\$ (127,803)</u>	<u>\$ 161,174</u>	<u>\$ 115,450</u>	<u>\$ 40,822</u>	<u>\$ 37,809</u>	<u>\$ 272,193</u>	<u>\$ (57,451)</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, 2012

	COR	CRC	CTF	CVSP	DVI	FSP	HDSP	ISP	KVSP	LAC
Operating Activity										
Net Canteen Sales	\$ 1,606,425	\$ 1,592,130	\$ 2,446,320	\$ 1,301,806	\$ 920,006	\$ 1,593,558	\$ 997,792	\$ 1,545,491	\$ 1,422,894	\$ 1,502,284
Less: Cost of Goods Sold	<u>966,578</u>	<u>949,254</u>	<u>1,452,088</u>	<u>771,646</u>	<u>556,047</u>	<u>983,792</u>	<u>617,425</u>	<u>916,243</u>	<u>844,103</u>	<u>884,857</u>
Gross Margin from Canteen Sales	639,847	642,876	994,232	530,160	363,959	609,766	380,367	629,248	578,791	617,427
Less: Personal Services	419,990	374,896	519,405	330,072	381,852	345,968	458,214	424,990	526,019	425,076
Supplies and Equipment	748	373	24,461	1,298	6,012	13,006	2,282	3,460	8,765	3,714
Amortization Expense	2,373	2,325	3,546	1,893	1,364	2,413	1,510	2,246	2,073	2,171
Inmate Pay	<u>2,367</u>	<u>2,984</u>	<u>6,017</u>	<u>1,942</u>	<u>2,372</u>	<u>3,112</u>	<u>1,757</u>	<u>2,002</u>	<u>2,898</u>	<u>2,348</u>
Total Canteen Expenses	<u>425,478</u>	<u>380,578</u>	<u>553,429</u>	<u>335,205</u>	<u>391,600</u>	<u>364,499</u>	<u>463,763</u>	<u>432,698</u>	<u>539,755</u>	<u>433,309</u>
Income (Loss) from Canteen Sales	214,369	262,298	440,803	194,955	(27,641)	245,267	(83,396)	196,550	39,036	184,118
Photo Project Revenue	15,267	20,160	37,543	19,876	5,379	26,219	12,657	17,032	29,100	24,727
Less: Photo Project Supplies	3,076	2,744	11,521	3,380	2,449	5,115	1,826	3,721	8,458	8,690
Inmate Pay	<u>159</u>	<u>-</u>	<u>643</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>206</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income (Loss) from Photo Project	12,032	17,416	25,379	16,496	2,930	21,104	10,625	13,311	20,642	16,037
Handicraft Revenue	-	-	151	5	860	80	-	-	-	230
Less: Handicraft Supplies and Expense	-	-	-	-	-	-	-	-	-	-
Inmate Pay	-	-	-	-	<u>575</u>	<u>673</u>	-	-	-	-
Income (Loss) from Handicraft Project	-	-	<u>151</u>	<u>5</u>	<u>285</u>	<u>(593)</u>	-	-	-	<u>230</u>
Income (Loss) from Operating Activity	226,401	279,714	466,333	211,456	(24,426)	265,778	(72,771)	209,861	59,678	200,385
Non-Operating Activity										
Non-Operating Revenue:										
Special Purchases Surcharge	2,416	1,470	4,115	799	732	974	3,880	1,442	2,731	2,624
Interest on Investments	1,796	1,763	2,785	1,454	1,027	1,829	1,135	1,687	1,588	1,618
Miscellaneous Non-Operating Revenue	<u>892</u>	<u>852</u>	<u>27,517</u>	<u>1,831</u>	<u>115</u>	<u>857</u>	<u>568</u>	<u>1,733</u>	<u>6,702</u>	<u>4,026</u>
Total Non-Operating Revenue	5,104	4,085	34,417	4,084	1,874	3,660	5,583	4,862	11,021	8,268
Non-Operating Expenses:										
Administrative Expenses	54,959	53,850	82,144	43,850	31,599	55,898	36,210	52,025	48,031	50,283
Rent Expense	34,543	33,846	51,630	27,561	19,861	35,134	21,981	32,699	30,189	31,605
Audit Expenses	3,924	3,845	5,865	3,131	2,256	3,991	2,497	3,715	3,429	3,590
Inmate Benefits:										
Visitor Program - Friends Outside	93,273	78,829	122,686	61,042	71,767	67,353	79,806	73,176	86,567	83,356
Education Services	15,310	8,764	19,269	17,121	6,320	12,320	8,544	10,712	5,302	4,534
Movie Rental	9,790	11,660	12,735	10,500	9,800	11,680	11,440	12,000	11,740	11,995
TV Services	-	1,050	588	1,176	-	-	550	32,987	-	378
Awards	2,631	1,281	3,686	-	2,092	983	-	2,362	3,971	3,483
Telephone-Visitor Hotline	805	681	1,059	527	620	582	689	632	748	720
Library	-	-	-	-	1,333	1,128	1,287	-	1,764	1,550
Entertainment	-	-	751	-	1,225	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Total Non-Operating Expenses	<u>215,235</u>	<u>193,806</u>	<u>300,413</u>	<u>164,908</u>	<u>146,873</u>	<u>189,069</u>	<u>163,004</u>	<u>220,308</u>	<u>191,741</u>	<u>191,494</u>
Income (Loss) from Non-Operating Activity	(210,131)	(189,721)	(265,996)	(160,824)	(144,999)	(185,409)	(157,421)	(215,446)	(180,720)	(183,226)
Current year Net Income (Loss)	16,270	89,993	200,337	50,632	(169,425)	80,369	(230,192)	(5,585)	(121,042)	17,159
Prior Year Adjustment	<u>(10,347)</u>	<u>1,091</u>	<u>340</u>	<u>2,106</u>	<u>236</u>	<u>(1,014)</u>	<u>(803)</u>	<u>1,272</u>	<u>(890)</u>	<u>1,323</u>
Total Net Income (Loss)	\$ 5,923	\$ 91,084	\$ 200,677	\$ 52,738	\$ (169,189)	\$ 79,355	\$ (230,995)	\$ (4,313)	\$ (121,932)	\$ 18,482

California Department of Corrections and Rehabilitation, Inmate Welfare Fund
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	MCSP	NKSP	PBSP	PVSP	RJD	SAC	SATF	SCC	SOL	SQ
Operating Activity										
Net Canteen Sales	\$ 1,564,936	\$ 1,354,356	\$ 978,403	\$ 1,416,500	\$ 1,391,637	\$ 914,232	\$ 1,989,675	\$ 1,733,156	\$ 2,117,457	\$ 1,625,800
Less: Cost of Goods Sold	<u>936,313</u>	<u>797,164</u>	<u>585,419</u>	<u>869,379</u>	<u>875,809</u>	<u>553,257</u>	<u>1,183,753</u>	<u>1,030,320</u>	<u>1,273,282</u>	<u>991,229</u>
Gross Margin from Canteen Sales	628,623	557,192	392,984	547,121	515,828	360,975	805,922	702,836	844,175	634,571
Less: Personal Services	449,850	413,302	391,809	380,057	450,460	330,466	645,028	413,086	562,769	588,955
Supplies and Equipment	17,311	6,743	2,077	22,508	1,436	5,624	12,566	1,096	1,740	5,328
Amortization Expense	2,297	1,956	1,435	2,132	2,145	1,353	2,905	2,524	3,122	2,433
Inmate Pay	<u>5,287</u>	<u>872</u>	<u>998</u>	<u>3,160</u>	<u>2,752</u>	<u>2,426</u>	<u>3,355</u>	<u>1,821</u>	<u>3,276</u>	<u>2,801</u>
Total Canteen Expenses	<u>474,745</u>	<u>422,873</u>	<u>396,319</u>	<u>407,857</u>	<u>456,793</u>	<u>339,869</u>	<u>663,854</u>	<u>418,527</u>	<u>570,907</u>	<u>599,517</u>
Income (Loss) from Canteen Sales	153,878	134,319	(3,335)	139,264	59,035	21,106	142,068	284,309	273,268	35,054
Photo Project Revenue	21,097	2,816	8,752	24,672	12,336	10,276	25,786	13,748	28,792	20,107
Less: Photo Project Supplies	<u>3,782</u>	<u>-</u>	<u>1,737</u>	<u>6,686</u>	<u>1,246</u>	<u>636</u>	<u>5,107</u>	<u>3,954</u>	<u>4,580</u>	<u>1,656</u>
Inmate Pay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>177</u>	<u>-</u>	<u>-</u>	<u>381</u>
Income (Loss) from Photo Project	17,315	2,816	7,015	17,986	11,090	9,640	20,502	9,794	24,212	18,070
Handicraft Revenue	-	-	-	-	-	-	-	573	722	1,881
Less: Handicraft Supplies and Expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Inmate Pay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,278</u>
Income (Loss) from Handicraft Project	-	-	-	-	-	-	-	573	722	603
Income (Loss) from Operating Activity	171,193	137,135	3,680	157,250	70,125	30,746	162,570	294,676	298,202	53,727
Non-Operating Activity										
Non-Operating Revenue:										
Special Purchases Surcharge	2,257	443	3,170	2,579	917	1,779	3,481	6,373	5,937	1,745
Interest on Investments	1,786	1,420	1,094	1,635	1,684	1,044	2,186	1,951	2,471	1,882
Miscellaneous Non-Operating Revenue	<u>873</u>	<u>672</u>	<u>4,895</u>	<u>879</u>	<u>830</u>	<u>512</u>	<u>4,040</u>	<u>1,183</u>	<u>3,716</u>	<u>13,802</u>
Total Non-Operating Revenue	4,916	2,535	9,159	5,093	3,431	3,335	9,707	9,507	12,124	17,429
Non-Operating Expenses:										
Administrative Expenses	53,216	45,307	33,245	49,384	49,692	31,349	67,285	58,479	72,309	56,367
Rent Expense	33,448	28,477	20,895	31,039	31,233	19,704	42,291	36,756	45,448	35,429
Audit Expenses	3,800	3,235	2,374	3,526	3,548	2,238	4,804	4,175	5,163	4,025
Inmate Benefits:										
Visitor Program - Friends Outside	67,691	97,837	60,084	86,774	82,473	53,905	119,174	99,922	94,362	94,080
Education Services	7,132	17,952	17,201	10,730	12,798	4,126	21,481	14,357	10,683	3,373
Movie Rental	11,500	11,360	7,100	12,090	11,280	10,430	12,805	12,300	11,660	11,530
TV Services	-	-	25,249	-	-	-	-	19,714	-	-
Awards	1,980	1,107	-	3,434	3,446	1,288	3,750	4,139	-	3,758
Telephone-Visitor Hotline	585	845	519	749	712	466	1,029	863	815	812
Library	1,190	-	-	-	777	-	1,889	1,700	1,664	1,223
Entertainment	1,030	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	109	-	-	-	-
Total Non-Operating Expenses	<u>181,572</u>	<u>206,120</u>	<u>166,667</u>	<u>197,726</u>	<u>195,959</u>	<u>123,615</u>	<u>274,508</u>	<u>252,405</u>	<u>242,104</u>	<u>210,597</u>
Income (Loss) from Non-Operating Activity	(176,656)	(203,585)	(157,508)	(192,633)	(192,528)	(120,280)	(264,801)	(242,898)	(229,980)	(193,168)
Current year Net Income (Loss)	(5,463)	(66,450)	(153,828)	(35,383)	(122,403)	(89,534)	(102,231)	51,778	68,222	(139,441)
Prior Year Adjustment	<u>(359)</u>	<u>53</u>	<u>6,550</u>	<u>(142)</u>	<u>(28,850)</u>	<u>1,808</u>	<u>(4,051)</u>	<u>(945)</u>	<u>6,530</u>	<u>3,363</u>
Total Net Income (Loss)	<u>\$ (5,822)</u>	<u>\$ (66,397)</u>	<u>\$ (147,278)</u>	<u>\$ (35,525)</u>	<u>\$ (151,253)</u>	<u>\$ (87,726)</u>	<u>\$ (106,282)</u>	<u>\$ 50,833</u>	<u>\$ 74,752</u>	<u>\$ (136,078)</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, 2012

	SVSP	VSPW	WSP	Combined
Operating Activity				
Net Canteen Sales	\$ 1,163,718	\$ 1,316,913	\$ 1,654,050	\$ 51,103,337
Less: Cost of Goods Sold	<u>683,660</u>	<u>766,091</u>	<u>1,005,734</u>	<u>30,604,174</u>
Gross Margin from Canteen Sales	480,058	550,822	648,316	20,499,163
Less: Personal Services	419,068	358,822	289,095	14,149,446
Supplies and Equipment	9,755	4,952	10,669	271,818
Amortization Expense	1,677	1,880	2,467	75,000
Inmate Pay	<u>1,568</u>	<u>1,608</u>	<u>1,612</u>	<u>91,634</u>
Total Canteen Expenses	<u>432,068</u>	<u>367,262</u>	<u>303,843</u>	<u>14,587,898</u>
Income (Loss) from Canteen Sales	47,990	183,560	344,473	5,911,265
Photo Project Revenue	10,736	18,065	3,733	581,086
Less: Photo Project Supplies	1,468	2,577	239	117,389
Inmate Pay	<u>454</u>	<u>-</u>	<u>125</u>	<u>2,498</u>
Income (Loss) from Photo Project	8,814	15,488	3,369	461,199
Handicraft Revenue	-	50	-	5,256
Less: Handicraft Supplies and Expense	-	-	-	131
Inmate Pay	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,013</u>
Income (Loss) from Handicraft Project	-	50	-	2,112
Income (Loss) from Operating Activity	56,804	199,098	347,842	6,374,576
Non-Operating Activity				
Non-Operating Revenue:				
Special Purchases Surcharge	1,153	1,137	326	88,510
Interest on Investments	1,304	1,553	1,815	57,555
Miscellaneous Non-Operating Revenue	<u>1,114</u>	<u>1,689</u>	<u>1,004</u>	<u>150,554</u>
Total Non-Operating Revenue	3,571	4,379	3,145	296,619
Non-Operating Expenses:				
Administrative Expenses	38,852	43,541	57,146	1,740,609
Rent Expense	24,419	27,367	35,918	1,091,936
Audit Expenses	2,774	3,109	4,080	124,043
Inmate Benefits:				
Visitor Program - Friends Outside	70,678	63,052	109,256	2,774,104
Education Services	6,790	15,568	4,077	347,045
Movie Rental	10,560	8,200	11,400	355,675
TV Services	462	-	-	171,570
Awards	1,980	-	422	58,559
Telephone-Visitor Hotline	610	544	975	23,986
Library	-	-	-	16,927
Entertainment	451	-	64	4,698
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>109</u>
Total Non-Operating Expenses	<u>157,576</u>	<u>161,381</u>	<u>223,338</u>	<u>6,709,261</u>
Income (Loss) from Non-Operating Activity	<u>(154,005)</u>	<u>(157,002)</u>	<u>(220,193)</u>	<u>(6,412,642)</u>
Current year Net Income (Loss)	(97,201)	42,096	127,649	(38,066)
Prior Year Adjustment	<u>(44)</u>	<u>(761)</u>	<u>(264)</u>	<u>(31,003)</u>
Total Net Income (Loss)	<u>\$ (97,245)</u>	<u>\$ 41,335</u>	<u>\$ 127,385</u>	<u>\$ (69,069)</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	=	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
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	ASP	CAL	CCC	CCI	CCWF	CEN	CIM	CIW	CMC	CMF
Operating Activity										
Net Canteen Sales	\$ 2,735,346	\$ 1,628,173	\$ 1,692,068	\$ 1,855,123	\$ 1,948,017	\$ 1,685,976	\$ 1,382,895	\$ 1,061,540	\$ 2,565,734	\$ 777,363
Less: Cost of Goods Sold	1,606,145	959,436	1,012,517	1,086,005	1,138,056	992,519	796,283	627,750	1,513,892	456,697
Gross Margin from Canteen Sales	1,129,201	668,737	679,551	769,118	809,961	693,457	586,612	433,790	1,051,842	320,666
Less: Personal Services	569,626	453,994	521,655	517,840	377,199	340,985	320,954	267,115	456,358	263,627
Supplies and Equipment	21,733	12,082	7,631	16,599	5,170	42	8,564	12,704	32,920	7,946
Amortization Expense	3,923	2,338	2,467	2,650	2,782	2,425	1,937	1,526	3,692	1,109
Inmate Pay	3,586	3,331	3,737	2,450	2,399	2,276	1,933	2,132	9,621	2,954
Total Canteen Expenses	598,868	471,745	535,490	539,539	387,550	345,728	333,388	283,477	502,591	275,636
Income (Loss) from Canteen Sales	530,333	196,992	144,061	229,579	422,411	347,729	253,224	150,313	549,251	45,030
Photo Project Revenue	38,168	27,935	9,685	13,524	17,965	19,229	5,313	12,020	30,441	5,127
Less: Photo Project Supplies	8,737	1,731	1,273	3,362	5,353	2,819	1,293	1,650	4,109	1,397
Inmate Pay	-	-	138	-	-	-	-	136	318	-
Income (Loss) from Photo Project	29,431	26,204	8,274	10,162	12,612	16,410	4,020	10,234	26,014	3,730
Handicraft Revenue	-	89	246	-	255	-	-	54	-	-
Less: Handicraft Supplies and Expense	-	-	-	-	-	-	-	-	-	-
Inmate Pay	-	240	-	-	475	-	-	-	-	-
Income (Loss) from Handicraft Project	-	(151)	246	-	(220)	-	-	54	-	-
Income (Loss) from Operating Activity	559,764	223,045	152,581	239,741	434,803	364,139	257,244	160,601	575,265	48,760
Non-Operating Activity										
Non-Operating Revenue:										
Special Purchases Surcharge	2,032	2,151	9,545	1,197	3,611	1,442	1,231	2,380	10,095	1,485
Interest on Investments	3,386	1,884	2,073	2,187	2,272	1,942	1,452	1,261	3,034	902
Miscellaneous Non-Operating Revenue	12,529	17,146	8,111	10,383	26,421	7,226	8,112	12,389	18,875	3,722
Total Non-Operating Revenue	17,947	21,181	19,729	13,767	32,304	10,610	10,795	16,030	32,004	6,109
Non-Operating Expenses:										
Administrative Expenses	73,818	43,437	45,834	49,228	51,683	45,065	35,987	28,348	68,593	20,608
Rent Expense	57,119	34,035	35,915	38,573	40,497	35,311	28,198	22,213	53,747	16,147
Audit Expenses	20,683	12,325	13,005	13,968	14,664	12,787	10,211	8,044	19,462	5,847
Inmate Benefits:										
Visitor Program - Friends Outside	103,521	67,115	91,078	89,169	64,379	76,503	92,463	42,787	102,758	47,735
Education Services	12,430	7,554	29,075	6,941	-	9,848	11,118	7,737	14,432	-
Movie Rental	11,000	10,800	11,880	11,705	10,200	11,340	10,660	9,050	3,150	10,650
TV Services	-	640	11,189	-	-	39,771	-	2,042	16,912	-
Awards	2,747	3,378	-	1,208	-	3,083	4,017	-	-	1,571
Telephone-Visitor Hotline	993	644	874	855	617	734	887	410	986	458
Library	-	-	2,798	2,004	1,265	-	-	-	2,124	-
Entertainment	-	-	-	-	-	-	-	-	243	-
Total Non-Operating Expenses	282,311	179,928	241,648	213,651	183,305	234,442	193,541	120,631	282,407	103,016
Income (Loss) from Non-Operating Activity	(264,364)	(158,747)	(221,919)	(199,884)	(151,001)	(223,832)	(182,746)	(104,601)	(250,403)	(96,907)
Current year Net Income (Loss)	295,400	64,298	(69,338)	39,857	283,802	140,307	74,498	56,000	324,862	(48,147)
Prior Year Adjustment	3,739	(11,986)	(5,593)	(1,748)	1,275	(5,683)	(5,988)	(3,610)	6,946	(2,380)
Total Net Income (Loss)	\$ 299,139	\$ 52,312	\$ (74,931)	\$ 38,109	\$ 285,077	\$ 134,624	\$ 68,510	\$ 52,390	\$ 331,808	\$ (50,527)

California Department of Corrections and Rehabilitation, Inmate Welfare Fund
Supplemental Schedules of Revenues and Expenses by Institution
For the Fiscal Year Ended June 30, 2011

	COR	CRC	CTF	CVSP	DVI	FSP	HDSP	ISP	KVSP	LAC
Operating Activity										
Net Canteen Sales	\$ 1,549,214	\$ 1,610,936	\$ 2,397,199	\$ 1,402,346	\$ 1,092,874	\$ 1,548,450	\$ 1,112,815	\$ 1,549,261	\$ 1,480,606	\$ 1,394,633
Less: Cost of Goods Sold	<u>907,935</u>	<u>933,244</u>	<u>1,403,716</u>	<u>821,350</u>	<u>650,805</u>	<u>949,324</u>	<u>679,304</u>	<u>902,409</u>	<u>859,557</u>	<u>805,358</u>
Gross Margin from Canteen Sales	641,279	677,692	993,483	580,996	442,069	599,126	433,511	646,852	621,049	589,275
Less: Personal Services	417,772	328,242	506,177	335,832	371,376	385,322	420,647	439,364	467,884	444,125
Supplies and Equipment	2,027	4,140	24,950	744	12,830	8,006	16,902	4,311	4,000	4,101
Amortization Expense	2,218	2,271	3,411	1,998	1,590	2,315	1,653	2,199	2,100	1,966
Inmate Pay	<u>2,142</u>	<u>3,217</u>	<u>6,765</u>	<u>1,643</u>	<u>2,212</u>	<u>2,937</u>	<u>2,050</u>	<u>2,664</u>	<u>2,725</u>	<u>1,975</u>
Total Canteen Expenses	<u>424,159</u>	<u>337,870</u>	<u>541,303</u>	<u>340,217</u>	<u>388,008</u>	<u>398,580</u>	<u>441,252</u>	<u>448,538</u>	<u>476,709</u>	<u>452,167</u>
Income (Loss) from Canteen Sales	217,120	339,822	452,180	240,779	54,061	200,546	(7,741)	198,314	144,340	137,108
Photo Project Revenue	14,097	22,537	32,448	22,814	3,406	20,751	12,287	16,984	28,497	18,302
Less: Photo Project Supplies	2,837	3,093	5,576	4,430	858	5,211	1,720	2,270	7,398	3,410
Inmate Pay	<u>155</u>	<u>-</u>	<u>789</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>239</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income (Loss) from Photo Project	11,105	19,444	26,083	18,384	2,548	15,540	10,328	14,714	21,099	14,892
Handicraft Revenue	-	-	63	34	1,044	4	-	-	-	330
Less: Handicraft Supplies and Expense	-	-	-	-	-	-	-	-	-	-
Inmate Pay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>573</u>	<u>647</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income (Loss) from Handicraft Project	-	-	63	34	471	(643)	-	-	-	330
Income (Loss) from Operating Activity	228,225	359,266	478,326	259,197	57,080	215,443	2,587	213,028	165,439	152,330
Non-Operating Activity										
Non-Operating Revenue:										
Special Purchases Surcharge	4,013	1,954	4,466	1,199	1,219	1,372	3,848	900	2,682	2,520
Interest on Investments	1,812	1,856	2,786	1,675	1,275	1,757	1,337	1,480	1,632	1,587
Miscellaneous Non-Operating Revenue	<u>6,631</u>	<u>8,603</u>	<u>33,836</u>	<u>6,316</u>	<u>4,802</u>	<u>6,499</u>	<u>5,053</u>	<u>6,492</u>	<u>15,409</u>	<u>8,864</u>
Total Non-Operating Revenue	12,456	12,413	41,088	9,190	7,296	9,628	10,238	8,872	19,723	12,971
Non-Operating Expenses:										
Administrative Expenses	41,205	42,196	63,382	37,128	29,547	43,019	31,583	40,861	39,024	36,537
Rent Expense	32,287	33,063	49,664	29,092	23,152	33,708	24,060	32,017	30,578	28,630
Audit Expenses	11,691	11,972	17,984	10,535	8,384	12,206	8,712	11,594	11,073	10,367
Inmate Benefits:										
Visitor Program - Friends Outside	85,159	70,139	101,564	59,462	60,639	64,888	71,380	64,999	77,967	72,716
Education Services	10,302	-	23,403	14,396	7,391	7,298	2,731	6,853	1,564	3,464
Movie Rental	11,145	11,220	13,160	10,600	9,500	12,220	11,055	12,000	11,420	10,600
TV Services	-	1,296	458	1,088	-	-	483	34,245	-	540
Awards	2,894	1,241	3,754	-	1,003	587	-	1,662	3,294	3,590
Telephone-Visitor Hotline	817	673	974	570	582	622	685	623	748	697
Library	-	-	-	1,144	1,197	1,053	812	1,440	1,710	1,375
Entertainment	<u>-</u>	<u>-</u>	<u>758</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Non-Operating Expenses	<u>195,500</u>	<u>171,800</u>	<u>275,101</u>	<u>164,015</u>	<u>141,395</u>	<u>175,601</u>	<u>151,501</u>	<u>206,294</u>	<u>177,378</u>	<u>168,516</u>
Income (Loss) from Non-Operating Activity	(183,044)	(159,387)	(234,013)	(154,825)	(134,099)	(165,973)	(141,263)	(197,422)	(157,655)	(155,545)
Current year Net Income (Loss)	45,181	199,879	244,313	104,372	(77,019)	49,470	(138,676)	15,606	7,784	(3,215)
Prior Year Adjustment	<u>(3,297)</u>	<u>(1,352)</u>	<u>(15,771)</u>	<u>(3,061)</u>	<u>(4,182)</u>	<u>(2,720)</u>	<u>(2,078)</u>	<u>(3,925)</u>	<u>15,607</u>	<u>745</u>
Total Net Income (Loss)	<u>\$ 41,884</u>	<u>\$ 198,527</u>	<u>\$ 228,542</u>	<u>\$ 101,311</u>	<u>\$ (81,201)</u>	<u>\$ 46,750</u>	<u>\$ (140,754)</u>	<u>\$ 11,681</u>	<u>\$ 23,391</u>	<u>\$ (2,470)</u>

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	MCSP	NKSP	PBSP	PVSP	RJD	SAC	SATF	SCC	SOL	SQ
Operating Activity										
Net Canteen Sales	\$ 1,602,106	\$ 1,431,904	\$ 846,442	\$ 1,573,032	\$ 1,522,901	\$ 891,787	\$ 2,140,317	\$ 1,707,821	\$ 2,324,472	\$ 1,644,790
Less: Cost of Goods Sold	<u>947,453</u>	<u>818,731</u>	<u>492,532</u>	<u>947,665</u>	<u>936,268</u>	<u>527,023</u>	<u>1,256,989</u>	<u>995,681</u>	<u>1,370,339</u>	<u>980,648</u>
Gross Margin from Canteen Sales	654,653	613,173	353,910	625,367	586,633	364,764	883,328	712,140	954,133	664,142
Less: Personal Services	413,821	373,909	375,503	322,346	358,858	304,705	640,899	428,978	552,303	568,069
Supplies and Equipment	15,448	12,180	3,411	7,855	11,006	6,896	9,295	2,454	19,668	5,858
Amortization Expense	2,308	1,996	1,202	2,312	2,282	1,283	3,070	2,426	3,335	2,394
Inmate Pay	<u>4,193</u>	<u>1,015</u>	<u>980</u>	<u>3,228</u>	<u>2,721</u>	<u>2,234</u>	<u>2,905</u>	<u>1,429</u>	<u>2,823</u>	<u>2,948</u>
Total Canteen Expenses	<u>435,770</u>	<u>389,100</u>	<u>381,096</u>	<u>335,741</u>	<u>374,867</u>	<u>315,118</u>	<u>656,169</u>	<u>435,287</u>	<u>578,129</u>	<u>579,269</u>
Income (Loss) from Canteen Sales	218,883	224,073	(27,186)	289,626	211,766	49,646	227,159	276,853	376,004	84,873
Photo Project Revenue	24,204	1,648	4,595	23,930	11,343	10,562	26,477	16,095	26,803	12,432
Less: Photo Project Supplies	3,942	386	705	1,272	854	3,083	2,734	2,614	9,337	1,106
Inmate Pay	-	-	-	-	-	-	123	-	-	108
Income (Loss) from Photo Project	20,262	1,262	3,890	22,658	10,489	7,479	23,620	13,481	17,466	11,218
Handicraft Revenue	-	-	-	49	-	-	-	472	989	1,061
Less: Handicraft Supplies and Expense	-	-	-	-	-	-	-	-	-	-
Inmate Pay	-	-	-	-	-	-	-	-	-	575
Income (Loss) from Handicraft Project	-	-	-	49	-	-	-	472	989	486
Income (Loss) from Operating Activity	239,145	225,335	(23,296)	312,333	222,255	57,125	250,779	290,806	394,459	96,577
Non-Operating Activity										
Non-Operating Revenue:										
Special Purchases Surcharge	2,218	381	3,782	3,376	669	1,347	4,101	5,033	5,352	1,181
Interest on Investments	1,956	1,572	973	1,872	1,878	979	2,504	2,003	2,680	1,926
Miscellaneous Non-Operating Revenue	<u>7,125</u>	<u>5,764</u>	<u>3,870</u>	<u>9,832</u>	<u>7,078</u>	<u>3,463</u>	<u>12,565</u>	<u>7,680</u>	<u>10,323</u>	<u>8,067</u>
Total Non-Operating Revenue	11,299	7,717	8,625	15,080	9,625	5,789	19,170	14,716	18,355	11,174
Non-Operating Expenses:										
Administrative Expenses	42,881	37,093	22,327	42,952	42,406	23,847	57,038	45,080	61,974	44,489
Rent Expense	33,600	29,061	17,494	33,655	33,228	18,685	44,693	35,323	48,560	34,860
Audit Expenses	12,167	10,523	6,335	12,187	12,032	6,766	16,184	12,791	17,584	12,623
Inmate Benefits:										
Visitor Program - Friends Outside	60,655	85,191	55,723	78,317	76,599	47,401	111,525	89,440	80,672	83,918
Education Services	-	-	9,669	1,878	10,441	16,197	2,453	20,399	6,481	9,062
Movie Rental	11,101	11,550	7,100	12,040	10,220	10,159	12,975	10,400	10,655	12,035
TV Services	-	-	14,423	-	-	-	-	15,708	-	-
Awards	2,062	957	-	1,844	3,614	1,571	3,739	4,267	-	332
Telephone-Visitor Hotline	582	817	534	751	735	455	1,070	858	774	805
Library	1,112	-	905	-	-	2,020	-	1,224	1,547	1,589
Entertainment	-	-	-	-	-	-	-	-	-	327
Total Non-Operating Expenses	<u>164,160</u>	<u>175,192</u>	<u>134,510</u>	<u>183,624</u>	<u>189,275</u>	<u>127,101</u>	<u>249,677</u>	<u>235,490</u>	<u>228,247</u>	<u>200,040</u>
Income (Loss) from Non-Operating Activity	(152,861)	(167,475)	(125,885)	(168,544)	(179,650)	(121,312)	(230,507)	(220,774)	(209,892)	(188,866)
Current year Net Income (Loss)	86,284	57,860	(149,181)	143,789	42,605	(64,187)	20,272	70,032	184,567	(92,289)
Prior Year Adjustment	<u>(355)</u>	<u>(6,266)</u>	<u>(1,870)</u>	<u>(2,822)</u>	<u>(3,065)</u>	<u>(3,767)</u>	<u>(16,411)</u>	<u>(1,452)</u>	<u>862</u>	<u>(3,214)</u>
Total Net Income (Loss)	<u>\$ 85,929</u>	<u>\$ 51,594</u>	<u>\$ (151,051)</u>	<u>\$ 140,967</u>	<u>\$ 39,540</u>	<u>\$ (67,954)</u>	<u>\$ 3,861</u>	<u>\$ 68,580</u>	<u>\$ 185,429</u>	<u>\$ (95,503)</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, 2011

	SVSP	VSPW	WSP	Combined
Operating Activity				
Net Canteen Sales	\$ 1,068,190	\$ 1,384,481	\$ 1,636,932	\$ 52,245,744
Less: Cost of Goods Sold	<u>612,620</u>	<u>797,914</u>	<u>975,354</u>	<u>30,761,519</u>
Gross Margin from Canteen Sales	455,570	586,567	661,578	21,484,225
Less: Personal Services	402,323	380,092	423,874	13,751,774
Supplies and Equipment	1,474	12,259	13,897	329,103
Amortization Expense	1,495	1,948	2,379	75,000
Inmate Pay	<u>1,669</u>	<u>1,793</u>	<u>1,373</u>	<u>92,060</u>
Total Canteen Expenses	<u>406,961</u>	<u>396,092</u>	<u>441,523</u>	<u>14,247,937</u>
Income (Loss) from Canteen Sales	48,609	190,475	220,055	7,236,288
Photo Project Revenue	10,213	24,798	1,777	566,407
Less: Photo Project Supplies	-	6,622	528	101,710
Inmate Pay	<u>298</u>	-	<u>372</u>	<u>2,676</u>
Income (Loss) from Photo Project	9,915	18,176	877	462,021
Handicraft Revenue	-	299	-	4,989
Less: Handicraft Supplies and Expense	-	-	-	-
Inmate Pay	-	-	-	<u>2,510</u>
Income (Loss) from Handicraft Project	-	<u>299</u>	-	<u>2,479</u>
Income (Loss) from Operating Activity	58,524	208,950	220,932	7,700,788
Non-Operating Activity				
Non-Operating Revenue:				
Special Purchases Surcharge	1,750	1,893	154	90,579
Interest on Investments	1,171	1,656	1,518	60,278
Miscellaneous Non-Operating Revenue	<u>5,457</u>	<u>18,208</u>	<u>7,544</u>	<u>334,395</u>
Total Non-Operating Revenue	8,378	21,757	9,216	485,252
Non-Operating Expenses:				
Administrative Expenses	27,785	36,199	44,203	1,395,357
Rent Expense	21,771	28,364	34,636	1,091,936
Audit Expenses	7,884	10,271	12,542	395,403
Inmate Benefits:				
Visitor Program - Friends Outside	66,240	62,978	96,075	2,501,155
Education Services	6,514	2,388	2,253	264,272
Movie Rental	10,860	8,800	11,715	352,965
TV Services	454	-	-	139,249
Awards	1,449	1,595	870	56,329
Telephone-Visitor Hotline	635	604	917	23,986
Library	-	-	-	25,319
Entertainment	<u>417</u>	-	<u>65</u>	<u>1,810</u>
Total Non-Operating Expenses	<u>144,009</u>	<u>151,199</u>	<u>203,276</u>	<u>6,247,781</u>
Income (Loss) from Non-Operating Activity	<u>(135,631)</u>	<u>(129,442)</u>	<u>(194,060)</u>	<u>(5,762,529)</u>
Current year Net Income (Loss)	(77,107)	79,508	26,872	1,938,259
Prior Year Adjustment	<u>(2,222)</u>	<u>(478)</u>	<u>(8,464)</u>	<u>(94,586)</u>
Total Net Income (Loss)	<u>\$ (79,329)</u>	<u>\$ 79,030</u>	<u>\$ 18,408</u>	<u>\$ 1,843,673</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	=	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

OFFICE OF THE SECRETARY

P.O. Box 942883
Sacramento, CA 94283-0001



July 3, 2014

Mr. Richard R. Sierra
Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street, 6th Floor
Sacramento, CA 95814

Dear Mr. Sierra:

The California Department of Corrections and Rehabilitation (CDCR) submits this letter in response to the Department of Finance's (DOF) draft audit report titled "California Department of Corrections and Rehabilitation, Combined Inmate Welfare Fund (IWF) for the Fiscal Years Ended June 30, 2012 and June 30, 2011."

Although DOF recognizes CDCR's Combined Balance Sheet as related to the Inmate Welfare Fund to be fairly stated and materially correct for fiscal year (FY) 2011-12, DOF could not express an opinion on the Combined Balance Sheet for FY 2010-11. As a result of the audit scope limitations for FY 2010-11, DOF's report cites both material internal control weaknesses related to CDCR's fiscal management practices and material compliance weaknesses related to fixed and intangible assets and rent expense. CDCR has made the necessary corrections to accurately reflect and record fixed and intangible assets in the SAP accounting system. CDCR also resolved the unsupported rent expense and is properly billing for the rental of canteen space using the current rates approved for Prison Industry Authority.

In FY 2010-11, standard reconciliation reports were not in place prior to the implementation of the new SAP accounting system. In July 2011, the SAP accounting system was updated with several major financial systems including the GL-95 enhancement to track liability accounts by fund and program; the Plan of Financial Adjustment (PFA) to properly track PFA related expenditures; and the Claims Table custom program to properly record the Office Revolving Fund claims. In FY 2011-12, Accounting conducted significant clean-up efforts to improve the accounting practices and statements. Throughout FY 2012-13, CDCR routinely completed and reconciled timely year end statements including proper supporting documentation. CDCR also stabilized its accounting system by establishing additional validation rules and controls.

To ensure active, ongoing oversight and monitoring of fiscal internal controls, the draft audit report outlines recommendations for the development of policies and procedures. CDCR had already revised and implemented procedures to strengthen internal controls

Mr. Richard Sierra

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and compliance for FY 2011-12 and 2012-13. The Department's existing SAP fiscal activity policies and procedures address internal control concerns by restricting accounting data access to specific staff roles. Going forward, CDCR will also issue instructional memos to its staff for procedural clarification and will conduct peer review and spot audits to monitor compliance. Finally, as of FY 2013-14, CDCR is completing quarterly reviews of all encumbrances, pre-encumbrances, and payroll reconciliations. Beginning in FY 2014-15, the payroll reconciliations will be completed monthly.

We would like to thank DOF for their work on this report. If you have any questions or concerns, please contact me at (916) 323-6001.

Sincerely,

Original Signed by

SCOTT R. CARNEY

Director

Division of Administrative Services

cc: Jeffrey A. Beard, Ph.D., Secretary, CDCR
Diana Toche, Undersecretary, Healthcare Services and Undersecretary (A),
Administration and Offender Services
Bryan Beyer, Director, Division of Internal Oversight and Research
Jason Lopez, Deputy Director (A), Fiscal Services
William Bramer, Associate Director, Accounting Services
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Lori Zamora, Deputy Director, Office of Audits and Court Compliance
Linda Wong, External Audits Manager, Office of Audits and Court Compliance