

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER**

**AUDIT OF THE INMATE WELFARE FUND
FINANCIAL STATEMENTS FOR THE FISCAL
YEAR ENDED SEPTEMBER 30, 2011**

OFFICE OF INTEGRITY AND OVERSIGHT



**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER
OFFICE OF INTEGRITY AND OVERSIGHT**



January 31, 2012

Thomas N. Faust, Acting Director
Department of Corrections
1923 Vermont Avenue, N.W., Room 203W
Washington, DC 20001

Angelique Hayes, Associate Chief Financial Officer
Public Safety and Justice Cluster
1100 4th Street, S.W., Suite 730E
Washington, DC 20024

Dear Mr. Faust and Ms. Hayes:

Pursuant to D.C. Code § 24-282(e) (2007), the Office of Integrity and Oversight (OIO) has completed an audit (OIO No. 12 – 01 -03 IWF) of the balance sheet of the Department of Corrections (DOC) Inmate Welfare Fund (IWF) as of September 30, 2011, and the related statement of revenues, expenditures and changes in fund balance for the year then ended.

Our audit included a review of the IWF's internal controls over financial reporting for the purpose of expressing an opinion on financial statements and determining the nature, time, and extent of substantive tests required. The review was not intended to be an exhaustive examination of IWF's internal control to assess its effectiveness, and would not have necessarily disclosed all weaknesses in the system. Additionally, we tested the IWF compliance with certain provisions of applicable laws and regulations. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions.

Unqualified Opinion on Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the IWF as of September 30, 2011, and the results of its operations for the year ended in conformity with accounting principles generally accepted in the United States of America.

We have identified deficiency in internal controls over financial reporting that we considered to be significant deficiency. We found that the Contracting Officer's Technical Representative (COTR) on the contract between DOC and the vendor for canteen merchandises did not receive or approve any invoices from the vendor before payment. DOC concurred with the finding and stated that corrective action will be implemented by March 1, 2012, to ensure that invoices from the commissary vendor are approved by the COTR and goods have been received prior to payment.

We appreciate the cooperation and courtesies extended to our staff during this audit. If you have any questions, please call me at (202) 442-6445 or Mohamad Yusuff, Internal Audit Director, at (202) 442-8240.

Sincerely,



William J. DiVello, Executive Director
Office of Integrity and Oversight

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**AUDIT OF THE INMATE WELFARE FUND FINANCIAL STATEMENTS FOR THE
FISCAL YEAR ENDED SEPTEMBER 30, 2011**

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**AUDIT OF THE INMATE WELFARE FUND FINANCIAL STATEMENTS FOR THE
FISCAL YEAR ENDED SEPTEMBER 30, 2011**

ACRONYMS

ACFO	Associate Chief Financial Officer
COTR	Contracting Officer's Technical Representative
DOC	Department of Corrections
IWF	Inmate Welfare Fund
MCPA	Multi-State Corrections Procurement Alliance
OCFO	Office of the Chief Financial Officer
OIO	Office of Integrity and Oversight

**AUDIT OF THE INMATE WELFARE FUND FINANCIAL STATEMENTS FOR THE
FISCAL YEAR ENDED SEPTEMBER 30, 2011**

INTRODUCTION

Pursuant to D.C. Code § 24-282(e) (2007), the Office of the Chief Financial Officer (OCFO), Office of Integrity and Oversight (OIO), has audited the financial statements of the Department of Corrections Inmate Welfare Fund (IWF) for the Fiscal Year 2011.

D.C. Code § 24-282(e) states:

“The fund shall be subject to annual audits scheduled by the Office of the Chief Financial Officer, which shall be submitted to the Council no later than February 1 of each year. The scope of audit shall include an examination of the Department’s use of fund profits, including stocking the commissaries, low bond releases, providing inmate clothing upon release, and funding transportation costs for the inmate after release. The audit reports shall be submitted to the Council and the Mayor.”

The IWF was established pursuant to D.C. Code § 24-282(a) and (b). The fund consists of (1) an initial appropriation in fiscal year 2007; and (2) monies derived from the sale of goods through the commissary at correctional facilities. The fund balance at the end of FY 2007 was \$273,000.

D.C. Code § 24-283 states that the fund shall be used for the following purposes:

- (1) To stock the commissaries of the District correctional facilities;
- (2) To repay the initial appropriation used to finance the fund, and
- (3) To provide goods and services that benefit the general inmate population at District correctional facilities as determined by the Inmate Welfare Fund Committee.

The Inmate Welfare Fund Committee (Committee) was established pursuant to D.C. Code § 24-284 for the purpose of administrating and supervising the operations of and the expenditures from the IWF. Furthermore, D.C. Code § 24-284(c) requires the Committee to maintain a record of its authorization and approval for all expenditures from the fund.

Independent Auditor's Report

Thomas N. Faust, Acting Director
Department of Corrections

Angelique Hayes, Associate Chief Financial Officer (ACFO)
Public Safety and Justice Cluster

We have audited the accompanying balance sheet for the Inmate Welfare Fund (IWF) as of September 30, 2011, and the related statement of revenues, expenditures and changes in fund balance for the year then ended. These financial statements are the responsibility of the IWF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in the 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 statements presentation. We believe that our audit provide reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the IWF as of September 30, 2011, and the results of its operations for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2012, on our consideration of the IWF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



William J. DiVello, Executive Director
Office of Integrity and Oversight

January 31, 2012

**AUDIT OF THE INMATE WELFARE FUND FINANCIAL STATEMENTS FOR THE
FISCAL YEAR ENDED SEPTEMBER 30, 2011**

FINANCIAL STATEMENTS

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011**

Revenues

Realized revenue from previous year canteen sales	\$39,613.98	
Realized revenue from current year canteen sale	45,547.77	
Total Revenues	<hr/>	\$85,161.75

Expenditures

Inmate Canvas Shoes	\$23,059.80	
Office Supplies	7,400.00	
Sports Equipment and Water	7,017.67	
Furnish and Install Security Door	6,594.00	
Seating Units	11,581.00	
Total Expenditures	<hr/>	55,652.47

Change in Fund Balance		\$29,509.28
Fund Balance, Beginning of the Year		406,330.27
Fund Balance, End of the Year		\$435,839.55

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

**AUDIT OF THE INMATE WELFARE FUND FINANCIAL STATEMENTS FOR THE
FISCAL YEAR ENDED SEPTEMBER 30, 2011**

**BALANCE SHEET
SEPTEMBER 30, 2011**

Assets

Cash	\$435,839.55	
Total Assets	<hr/>	\$435,839.55

Liability

Accrued Expenditure	\$25,192.67	
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Fund Equity

Restricted Expendable Fund Balance	\$410,646.88	
Total Liability and Fund Equity	<hr/>	\$435,839.55

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

**AUDIT OF THE INMATE WELFARE FUND FINANCIAL STATEMENTS FOR THE
FISCAL YEAR ENDED SEPTEMBER 30, 2011**

NOTES TO FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Inmate Welfare Fund report on the Fund's financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities. A fund is a separate entity with a self-balancing set of accounts.

The IWF is a special purpose fund, which is used to account for revenues generated from canteen sales and expenditures incurred to provide goods and services that benefit the general inmate population at District correctional facilities.

Basic of Accounting

The IWF is accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus, only current assets and current liabilities are included on the balance sheet, revenues are recognized when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon thereafter to be used to pay liabilities of the current period.

Note 2: Revenues

The District is a member of the Multi-State Corrections Procurement Alliance (MCPA). MCPA's primary purpose is to establish the means by which Department of Correction across the nation may join together in cooperative multi-state contracting in order to achieve cost effective and efficient acquisition of quality products and services.

In September 2009, DOC entered into a Participating Addendum¹ to add the District as a Participating Jurisdiction to the original contract between Virginia State, Department of Corrections and the vendor. The contract requires the vendor to provide the inmates with commissary goods and pay DOC a 6.5% commission on commissionable sales each month, which is defined as gross sales less any adjustment and non-commissionable sales. The commission will be stated as a discount amount on the face of the invoice.

¹ "Participating Addendum" means a bilateral agreement executed by the contractor and a participating state that clarifies the operation of the price agreement for the state concerned and may add other state-specific language or other requirements.

**AUDIT OF THE INMATE WELFARE FUND FINANCIAL STATEMENTS FOR THE
FISCAL YEAR ENDED SEPTEMBER 30, 2011**

In October 2009, Virginia State, Department of Corrections modified the contract with the vendor and reduced the commission rate to 5.5% on commissionable sales. This modification requires the commission rate to be reverted to 6.5% on August 2010.

In September 2011, the contract was modified to reduce the commission rate to 5.5% for the period September 1, 2011 through October 31, 2011. Starting November 1, 2011, the rate shall be increased to 9% for the period November 1, 2011 through July 31, 2014.

For FY 2011, the revenues are comprised of: canteen sales revenue (commission) that was not recognized last year for the amount of \$39,613.98; and current year canteen sales revenue of \$45,547.77.

Note 3: Accrued Expenditures

Amounts owed to contractors for various IWF expenditures at fiscal year end.

Note 4: Fund Equity

The fund balance is restricted expendable fund for the purpose of providing goods and services that benefit the general inmate population at the District correctional facilities.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer
Office of Integrity and Oversight



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE

Thomas N. Faust, Acting Director
Department of Correction

Angelique Hayes, Associate Chief Financial Officer (ACFO)
Public Safety and Justice Cluster

We have audited the financial statements of the Inmate Welfare Fund (IWF) as of and for the fiscal year ended September 30, 2011, and have issued our report thereon dated January 31, 2012. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the IWF's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the IWF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the IWF's internal control over financial reporting.

A deficiency in internal control exists when the design of 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 misstatement on a timely basis. *A significant deficiency* is a deficiency, or 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. *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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We identified the following deficiency in internal control to be a significant deficiency, as defined above.

The Contracting Officer's Technical Representative (COTR) on the contract between DOC and a vendor for canteen merchandises did not receive or approve any invoices from the vendor before payment. The vendor sends the invoices directly to the Accounts Payable Division for payment without the COTR approves that the goods were already received.

DOC concurred with the finding and stated that corrective action will be implemented by March 1, 2012, to ensure that invoices from the commissary vendor are approved by the COTR and goods have been received prior to payment.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer
Office of Integrity and Oversight



Compliance

As part of obtaining reasonable assurance about whether the IWF'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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

A handwritten signature in black ink, appearing to read "William J. DiVello". The signature is fluid and cursive.

William J. DiVello, Executive Director
Office of Integrity and Oversight

January 31, 2012