

**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, 2015**

OFFICE OF INTEGRITY AND OVERSIGHT



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



January 28, 2016

Thomas N. Faust, Director
Department of Corrections
2000 14th Street, N.W., Seventh Floor
Washington, DC 20009

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

Dear Mr. Faust and Ms. Rice:

The Office of the Chief Financial Officer (OCFO)'s Office of Integrity and Oversight (OIO) has completed an audit (OIO No. 16-01-01 IWF) of the Balance Sheet of the Department of Corrections (DOC) Inmate Welfare Fund (IWF) as of September 30, 2015, 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 the IWF's internal controls 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.

Unmodified Opinion on Financial Statements

In our opinion, the IWF Financial Statements for FY 2015 present fairly, in all material respects, the financial position of the Inmate Welfare Fund as of September 30, 2015, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We have identified significant deficiencies in internal controls over financial reporting, and provided two recommendations to correct these internal control deficiencies. The Public Safety and Justice Cluster (PSJC) and the Department of Corrections (DOC) management concurred with our recommendations and provided corrective actions taken and planned to address the findings cited in the report. We consider the corrective actions taken and planned to be responsive to our recommendations. The full texts of the agencies' responses are included as Appendix 1 and 2.

We appreciate the cooperation and courtesies extended to our staff during this audit. Should you have any questions, please call me at (202) 442-6433, or Tisha Edwards, Audit Manager at (202) 442-6446.

Sincerely,



Timothy Barry, Executive Director
Office of Integrity and Oversight

cc: see Distribution List

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**AUDIT OF THE INMATE WELFARE FUND FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

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**AUDIT OF THE INMATE WELFARE FUND FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

ACRONYMS

ACFO	Associate Chief Financial Officer
DOC	Department of Corrections
IWF	Inmate Welfare Fund
JACCS	Jail and Community Corrections System
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, 2015**

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 (DOC) Inmate Welfare Fund (IWF) for the Fiscal Year 2015.

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, in order of priority:

- (1) To stock the commissaries of District correctional facilities;
- (2) To repay the initial appropriation used to finance the Fund; and
- (3) To provide goods and services that benefits 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.

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



Independent Auditor's Report

Thomas N. Faust, Director
Department of Corrections

Angelique H. Rice, Associate Chief Financial Officer (ACFO)
Office of the Chief Financial Officer

Report on Inmate Welfare Fund Financial Statements

We have audited the accompanying Financial Statements of the Inmate Welfare Fund (IWF), which comprise the Balance Sheet as of September 30, 2015, the Statement of Revenues, Expenditures, and Changes in Fund Balance for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.


We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Financial Statements referred to above present fairly, in all material respects, the financial position of the Inmate Welfare Fund as of September 30, 2015, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued our report dated January 28, 2016, 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.


Timothy Barry, Executive Director
Office of Integrity and Oversight

January 28, 2016

**AUDIT OF THE INMATE WELFARE FUND FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

FINANCIAL STATEMENTS

**Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended September 30, 2015**

Revenues

Realized revenue from current year canteen sales \$85,027.50

Total Revenues **\$85,027.50**

Expenditures

Inmate Financial Assistance \$ 9,999.20

Recreation \$ 7,824.94

Library \$ 6,958.95

Programs Administration \$36,501.31

Total Expenditures **\$ 61,284.40**

Change in Fund Balance \$ 23,743.10

Fund Balance, Beginning of the Year \$738,196.79

Fund Balance, End of the Year **\$761,939.89**

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, 2015**

**Balance Sheet
September 30, 2015**

Assets

Cash	\$746,758.37
Accounts Receivable	\$ 26,230.72

Total Assets **\$772,989.09**

Liabilities

Vouchers Payable	\$ 11,049.20
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Fund Equity

Restricted Expendable Fund Balance	\$761,939.89
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Total Liabilities and Fund Equity **\$772,989.09**

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, 2015**

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.

Basis 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 Corrections 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, 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, 2015**

In October 2009, Virginia, 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. On July 31, 2014, a Modification of the Contract was signed to extend the contract through December 31, 2014. The 9% commission rate was used through FY 2015.

Note 3: Vouchers Payable

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

Note 4: Fund Equity

The Fund Balance is restricted for the purpose of providing goods and services that benefit the general inmate population at 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, Director
Department of Corrections

Angelique H. Rice, Associate Chief Financial Officer (ACFO)
Office of the Chief Financial Officer

We have audited the Financial Statements of the Inmate Welfare Fund (IWF) as of and for the Fiscal Year ended September 30, 2015, and have issued our report thereon dated January 28, 2016. 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

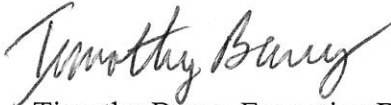
In planning and performing our audit, we considered the IWF's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of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

We examined 157 invoices for FY2015, and found that 134 invoices (85.4%) contained calculation errors. These errors occurred when DOC personnel calculated the amounts to be paid to the vendor. Such errors included: not subtracting the discount received from the vendor; not adding back the non-commissionable sales; and not calculating the discount on the net sales. As a result, the District overpaid the vendor the amount of \$26,230.72 for FY 2015. To resolve this issue, DOC finance officials made an adjusting journal entry, effective September 30, 2015, to book account receivable for the amount overpaid to the vendor.

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.



Timothy Barry, Executive Director
Office of Integrity and Oversight

January 28, 2016

**AUDIT OF THE INMATE WELFARE FUND FINANCIAL STATEMENTS FOR THE
FISCAL YEAR ENDED SEPTEMBER 30, 2015**

RECOMMENDATIONS:

We recommend that the Director of the DOC and the ACFO for the Public Safety and Justice Cluster to:

1. Establish effective internal controls to ensure proper calculation of the amounts to be paid to the canteen vendor. The proper calculation should include: a) amount of sales returns and credits are deducted from the gross commissionable sales; b) the 9% discount rate is applied to the net sales; and c) the non-commissionable sales are added back to the net sales after subtracting the discount.

We recommend that the Director of the DOC:

2. Request the canteen vendor reimburse the District the amount of \$26,230.72.

MANAGEMENT'S RESPONSE AND OIO COMMENTS:

Management's Response (Recommendation 1)

PSJC's management concurred with the recommendation and stated that they are working with DOC's staff to ensure that the referenced calculations are incorporated in the calculation for the vendor payment.

DOC's management concurred with the recommendation and stated that they are working with the financial staff to ensure that the referenced calculations are incorporated in the calculation for the vendor payment.

OIO Comments

PSJC and DOC's corrective actions are responsive and meet the intent of the recommendation.

Management's Response (Recommendation 2)

PSJC's management stated that DOC's management is to address this recommendation.

DOC's management has submitted to the canteen vendor the request to reimburse the District the amount of \$26,230.72.

OIO Comments

DOC's corrective action is responsive and meets the intent of the recommendation.

EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

No.	Recommendations	Type of Benefit	Agency Reported Estimated Completion Date	Status*
1	Establish effective internal controls to ensure proper calculation of the amounts to be paid to the canteen vendor. The proper calculation should include: a) amount of sales returns and credits are deducted from the gross commissionable sales; b) the 9% discount rate is applied to the net sales; and c) the non-commissionable sales are added back to the net sales after subtracting the discount.	Internal Control	Fiscal Year 2016	Open
2	Request the canteen vendor reimburse the District the amount of \$26,230.72.	Economy	January 19, 2016	Closed

* This column provides the status of a recommendation as of the report date. For final reports, “open” means management and the OIO are in agreement on the action to be taken, but is not complete. “Closed” means management has advised that action necessary to correct the deficiency is complete. If a completion date was not provided, the date of management’s response is used. “Unresolved” means that management has neither agreed to take the recommended action nor proposed a satisfactory alternative action to correct the condition.

APPENDIX 1: PSJC MANAGEMENT'S RESPONSE

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE ASSOCIATE CHIEF FINANCIAL OFFICER
PUBLIC SAFETY & JUSTICE CLUSTER**



MEMORANDUM

TO: Timothy Barry
Executive Director
Office of Integrity & Oversight
Angelique Hayes Rice
FROM: Angelique Hayes Rice
Associate Chief Financial Officer
DATE: January 26, 2016
SUBJECT: OIO Draft Report No. 16-01-01 IWF

The purpose of this correspondence is to address the audit recommendations related to the financial statements of the Inmate Welfare Fund (IWF), Department of Corrections, as of September 30, 2015.

The Public Safety and Justice Cluster comments are as follows:

Recommendation #1: Establish effective internal controls to ensure proper calculation of the amounts to be paid to the canteen vendor. The proper calculation should include: a) amount of sales returns and credits are deducted from the gross commissionable sales; b) the 9% discount rate is applied to the net sales; and c) the non-commissionable sales are added back to the net sales after subtracting the discount. **Response** – We concur with the recommendation and are working with the Program staff to ensure referenced calculations are incorporated in the calculation for the vendor payment.

Recommendation #2: Request the canteen vendor reimburse the District the amount of \$26,230.72. **Response** – The agency Program staff to address the recommendation.

If you have any questions, please contact Loretta Walker on 727-4317 or via Email Loretta.Walker@dc.gov.

cc: Loretta Walker, Cluster Controller, PSJC
Winston Jackson, Accounting Officer, PSJC
Rosanne Etinoff, Cluster Accounts Payable Manager, PSJC

1100 FOURTH STREET, S.W. • SUITE E730 • WASHINGTON, D.C. 20024


APPENDIX 2: DOC MANAGEMENT'S RESPONSE

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF CORRECTIONS**



MEMORANDUM

TO: Timothy Barry
Executive Director

FROM: Thomas Faust 
Director

DATE: January 27, 2016

SUBJECT: OIO Draft Report No. 16-01-01 IWF

The purpose of this correspondence is to address the audit recommendations related to the financial statements of the Inmate Welfare Fund (IWF), Department of Corrections, as of September 30, 2015.

The Department of Corrections comments are as follows:

Recommendation #1: Establish effective internal controls to ensure proper calculation of the amounts to be paid to the canteen vendor. The proper calculation should include: a) amount of sales returns and credits are deducted from the gross commissionable sales; b) the 9% discount rate is applied to the net sales; and c) the non-commissionable sales are added back to the net sales after subtracting the discount. **Response-** We concur with the recommendation and are working with the Financial staff to ensure referenced calculations are incorporated in the calculation for the vendor payment.

Recommendation #2: Request the canteen vendor reimburse the District the amount of \$26,230.72. **Response** - The request has been submitted to the canteen vendor (copy of letter is attached).

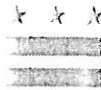
Should you have any questions, please contact Sallie Thomas on (202) 671-2134 or via E-mail sallie.thomas@dc.gov.

cc: Sallie Thomas, Executive Assistant

APPENDIX 2: DOC MANAGEMENT'S RESPONSE

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF CORRECTIONS

Office of The Deputy Director
for Management Support



January 19, 2016

Max, Hernandez, KCN Regional
Attn: Accounts Payable
Keefe Commissary Network, LLC
919 Corporate Lane
Chesapeake, VA 23320

Re: Contract/Task Order Number CW18182

Dear Sir:

This is an attempt to receive reimbursement for overpayments by the District of Columbia Department of Corrections. This remittance is submitted for payments of discounts that were overpaid to invoices (April 2015, May 2015, June 2015 & July 2015) for the fiscal year 2105. The total amount due is \$26,230.72.

Please submit this remittance and a check for \$26,230.72 due immediately to:

Ms. Rosanne Ettinoff, Accounts Payable Manager
300 Indiana Avenue NW
Suite 4106
Washington, DC 20001

Please feel free to contact me at (202) 826-4931 should you have any questions and/or concerns.

Sincerely,

A handwritten signature in cursive script that reads "Trina Byrd".

Trina Byrd
Supervisory Contract Administrator