

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer



Office of Integrity and Oversight

January 31, 2018

Quincy L. Booth, 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. Booth and Ms. Rice:

The Office of the Chief Financial Officer (OCFO)'s Office of Integrity and Oversight (OIO) has completed an audit (OIO No. 18-02-02 IWF) of the Balance Sheet of the Department of Corrections (DOC) Inmate Welfare Fund (IWF) as of September 30, 2017, 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, timing, 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's 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 2017 present fairly, in all material respects, the financial position of the Inmate Welfare Fund as of September 30, 2017, 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 a material weakness in internal controls over financial reporting and provided recommendations to correct this internal control deficiency. The Department of Corrections (DOC), and the Public Safety and Justice Cluster (PSJC)'s management concurred with our recommendations and provided corrective actions taken and planned to address the finding cited in the report. We consider the corrective actions taken and planned to be

responsive to our recommendations. The full text of the agencies responses is included as Appendix 1.

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, Internal Audit Director, at (202) 442-6446.

Sincerely,



Timothy Barry, Executive Director
Office of Integrity and Oversight

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Office of Integrity & Oversight

**Government of the District
of Columbia, Office of the
Chief Financial Officer**

January 31, 2018

**Audit of the Inmate
Welfare Fund Financial
Statements for Fiscal
Year Ended**

September 30, 2017

**AUDIT OF THE INMATE WELFARE FUND FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

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**AUDIT OF THE INMATE WELFARE FUND FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

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
OCP	Office of Contracting and Procurement
OIO	Office of Integrity and Oversight
PSJC	Public Safety and Justice Cluster

**AUDIT OF THE INMATE WELFARE FUND FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

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 2017.

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 the 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

Quincy L. Booth, Director
Department of Corrections

Angelique H. Rice, Associate Chief Financial Officer (ACFO)
Public Safety and Justice Cluster (PSJC), 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, 2017, 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, 2017, 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 31, 2018, 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 31, 2018

**AUDIT OF THE INMATE WELFARE FUND FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

FINANCIAL STATEMENTS

**Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended September 30, 2017**

Revenue

Realized revenue from current year canteen sales \$ 161,388.74

Total Revenue

\$161,388.74

Expenditures

Juvenile Program Services \$ 55,947.93

Recreation 37,298.18

Education 34,956.65

Library 627.69

Re-Entry Services 75,754.88

Programs Administration 80,948.00

Total Expenditures

\$285,533.33

Change in Fund Balance

(\$124,144.59)

Fund Balance, Beginning of the Year

\$721,281.82

Fund Balance, End of the Year

\$597,137.23

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, 2017**

**Balance Sheet
September 30, 2017**

Asset

Cash \$ 777,312.56

Total Asset \$777,312.56

Liabilities

Vouchers Payable \$ 25,590.58

Inter-Fund Transfer 154,584.75

Total Liabilities \$180,175.33

Fund Equity

Restricted Expendable Fund Balance \$ 597,137.23

Total Liability and Fund Equity \$777,312.56

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, 2017**

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, 2017**

The contract went through several amendments. Starting November 1, 2011, the rate for the commission on commissionable sales increased to 9%.

Effective January 1, 2016, a Participating Addendum to the State of Nevada Inmate Kiosks issued on behalf of the Multi-State Corrections Procurement Alliance (MCPA) between Keefe Supply Company and the DC Office of Contracting and Procurement (OCP) Department of Corrections gives the option to inmates to place commissary orders via Edge Housing Unit Kiosks installed in the correctional facilities' housing locations. The commission rate continued to be 9% of adjusted commissionable gross sales during FY 2017.

Note 3: Cash

The Fund's cash represents Fund's assets accumulated which derived from the operations' surplus throughout the years. As required by DC Law 24-282, the cash is to provide goods and services that benefit the general inmate population house in the correctional facilities. The cash balances in FY 2017 and 2016 were \$777,312.56 and \$742,648.76, respectively.

Note 4: Vouchers Payable

Amounts owed to contractors for various IWF expenditures at fiscal year-end in the amount of \$25,590.58.

Note 5: Inter-Fund Transfer Liability

Amount represents what the Inmate Welfare Fund owed to Fund 601 (Concession Income) as of September 30, 2017 due to an over transfer of \$154,584.75 when recording the IWF revenues.

Note 6: 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. The ending fund equity balance as of September 30, 2017 was \$597,137.23.

Office of Integrity and Oversight

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

Quincy L. Booth, Director
Department of Corrections

Angelique H. Rice, Associate Chief Financial Officer (ACFO)
Public Safety and Justice Cluster (PSJC), 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, 2017 and have issued our report thereon dated January 31, 2018. 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 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 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 material weakness in internal control.

Revenues

DC Code 24-282 states that the Inmate Welfare Fund shall consist of an initial appropriation in fiscal year 2007, and monies derived from the sale of goods through the commissary at correctional facilities. Keefe's contract DOC-06-067-KEE states in part that the contractor shall pay the DOC a 9% commission on commissionable sales each month. This 9% commission is defined as gross sales (which represents total sales less taxes), less any adjustments and non-commissionable sales.

The Public Safety and Justice Cluster overstated revenue (i.e. 9% commission on canteen vendor sales) for the Inmate Welfare Fund for FY 2017 by \$154,585, whereas the actual commission revenue for FY 2017 was \$161,389. This error occurred because: a) there were no comprehensive policies and procedures related to revenue recognition of commission sales; and b) the methodology specified in the canteen vendor (i.e., Keefe) contract for the calculation of the 9% commission revenue was not followed.

In analyzing the root cause of the overstated revenue, we found that PSJC recorded revenue as total canteen sales less payments to the vendor from Fund 601 (Concession Income) to Fund 602 (Inmate Welfare Fund). The canteen sales recorded in the Fund 601 general ledger, relied on the Jail and Community Corrections System (JACCS) reports to determine the revenue. Per PSJC officials, JACCS includes taxes and non-commissionable sales that are not allowed in the contractual calculation of the revenue. Additionally, with the implementation in FY 2017 of the Edge Housing Unit Kiosks (as explained in page 9 of this report) and the related Keefe system, credits associated to returns were double counted by utilizing both Keefe's credits and JACCS reports for canteen returns, resulting in an underpayment of over \$100,000 to the vendor.

To resolve this issue, PSJC accounting staff performed a subsequent adjustment to the Inmate Welfare Fund Financial Statements to reduce the overstated IWF revenue for FY 2017.

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 31, 2018

RECOMMENDATIONS:

We recommend that the ACFO for the Public Safety and Justice Cluster, and the Director for the Department of Corrections:

1. Develop and establish policies and procedures related to revenue recognition of the Inmate Welfare Fund (i.e., 9% of canteen sales commission), and the proper accounting and internal controls for the Department of Corrections' Commissary Management Service Contract (DOC-06-067-KEE).
2. Obtain from the vendor, on a periodic basis, the 9% canteen commission statements, and reconcile to calculations performed by the DOC's Contract Administrator and PSJC's Inmate Finance office to ensure accurate recognition of commission revenue.

MANAGEMENT'S RESPONSE AND OIO COMMENTS:

Management's Response (Recommendation 1)

DOC and PSJC's management concurred with the recommendation and stated that they will institute policies and procedures to emulate the IWF canteen operations, ensuring the proper sales commission are reflected in the agency's financial system.

OIO Comments

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

Management's Response (Recommendation 2)

DOC and PSJC's management concurred with the recommendation and stated that they will coordinate to receive and reconcile on a monthly basis the 9% canteen commission as required by the Keefe contract.

OIO Comments

DOC and PSJC's corrective actions are responsive and meet 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 ²
1	Develop and establish policies and procedures related to revenue recognition of the Inmate Welfare Fund (i.e., 9% of canteen sales commission), and the proper accounting and internal controls for the Department of Corrections' Commissary Management Service Contract (DOC-06-067-KEE).	Internal Control	May 1, 2018	Open
2	Obtain from the vendor, on a periodic basis, the 9% canteen commission statements, and reconcile to calculations performed by the DOC's Contract Administrator and PSJC's Inmate Finance office to ensure accurate recognition of commission revenue.	Internal Control	During FY 2018	Open

² 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: DOC AND PSJC'S MANAGEMENT RESPONSE

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF CORRECTIONS



Office of the Director

January 30, 2018

Timothy Barry, Executive Director
Office of Integrity and Oversight
Office of the Chief Financial Officer
1100 4th Street, S.W., Suite 750
Washington, D.C. 20024

Dear Mr. Barry:

Our comments regarding the Office of the Chief Financial Officer's Office of Integrity and Oversight (OIO) Draft Audit Report (OIO Report No. 18-02-02 IWF) of the Department of Corrections Inmate Welfare Fund (IWF) financial statements for the fiscal year ending September 30, 2017 are as follows:

RECOMMENDATIONS: We recommend that the Associate Chief Financial Officer for Public Safety and Justice Cluster, and the Director for the Department of Corrections:

1. Develop and establish policies and procedures related to revenue recognition of the Inmate Welfare Fund (i.e., 9% of canteen sales commission), and the proper accounting and internal controls for the Department of Corrections' Commissary Management Service Contract (DOC-06-067-KEE).

Response: We concur with the recommendation and will institute policies and procedures to emulate the IWF canteen operations, ensuring the appropriate sales commission are reflected on the agency's financial system. We anticipate completing draft policies and procedures by May 1, 2018.

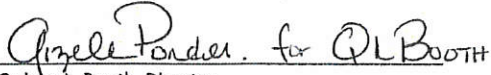
2. Obtain from the vendor, on a periodic basis, the 9% canteen commission statements, and reconcile to calculations performed by the DOC's Contract Administrator and PSJC's Inmate Finance Office to ensure accurate recognition of commission revenue.

Response: We will coordinate with the DOC's Contract Administrator to receive and reconcile on a monthly basis the 9% canteen commission as required by the Keefe contract. All appropriate credits and adjustments will be made to ensure the commissary revenue is properly recorded.

APPENDIX 1: DOC AND PSJC'S MANAGEMENT RESPONSE

Timothy Barry
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January 30, 2018

If you have any questions, please let us know.


Quincy L. Booth, Director
Department of Corrections


Angelique Hayes Rice
Associate Chief Financial Officer
Public Safety and Justice Cluster