

**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, 2013**

OFFICE OF INTEGRITY AND OVERSIGHT



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



January 31, 2014

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

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:

The Office of Integrity and Oversight (OIO) has completed an audit (OIO No. 14-01-06 IWF) of the balance sheet of the Department of Corrections (DOC) Inmate Welfare Fund (IWF) as of September 30, 2012 and 2013, and the related statement of revenues, expenditures and changes in fund balance for the years 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 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.

Qualified Opinion on Financial Statements

In our opinion, except for the effects of the unrecognized revenues and overpayments made to the canteen services vendor, the financial statements referred to above present fairly, in all material respects, the financial position of the Inmate Welfare Fund as of September 30, 2012 and 2013, and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

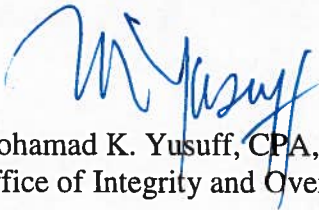
In our report dated January 29, 2013, we expressed an unqualified opinion on FY 2012 financial statements. Because of the new information received regarding DOC's overpayments made to the canteen service vendor and the understatement of revenue recognized (the District's commission on canteen sales), our present opinion on the FY 2012 financial statements, as presented above, is different from that expressed in our previous report.

We have identified deficiencies in internal controls over financial reporting that we considered to be material weaknesses. Additionally, we provided three recommendations to correct these internal control material weaknesses.

The Director of the Department of Corrections and the Associate Chief Financial Officer for Public Safety and Justice Cluster concurred with the recommendations and provided a detailed 11-point corrective action plan with appropriate timelines to resolve the noted deficiencies. The full text of management's response is included at Exhibit B.

We appreciate the cooperation and courtesies extended to our staff during this audit. Should you have any questions, please call me at (202) 442-8240, or Khaled Abdel Ghany, OIO's Senior Auditor, at (202) 442-8277.

Sincerely,



Mohamad K. Yusuff, CPA, Interim 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, 2013**

TABLE OF CONTENTS

INTRODUCTION1

INDEPENDENT AUDITOR’S REPORT2

FINANCIAL STATEMENTS

 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE4

 BALANCE SHEET5

 NOTES TO FINANCIAL STATEMENTS6

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE8

RECOMMENDATIONS10

EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS FROM AUDIT11

APPENDIX 1: MANAGEMENT’S RESPONSE12

**AUDIT OF THE INMATE WELFARE FUND FINANCIAL STATEMENTS FOR THE
FISCAL YEAR ENDED SEPTEMBER 30, 2013**

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
SOAR	System of Accounting and Reporting

**AUDIT OF THE INMATE WELFARE FUND FINANCIAL STATEMENTS FOR THE
FISCAL YEAR ENDED SEPTEMBER 30, 2013**

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 Years 2012 and 2013.

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.

**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 Hayes, 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, 2012 and 2013, and the statement of revenues, expenditures, and changes in fund balance for the years 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 control 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 control 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 qualified audit opinion.

Basis for Qualified Opinion

The Department of Corrections (DOC) did not reduce the vendor's invoices billed to DOC, and paid, by the amounts of the inmates' sales returns and credits for FYs 2012 and 2013. Therefore, the revenue recognized, the change in fund balance, and the restricted expandable fund balance were understated by the amounts of \$84,252, and \$92,648.36 for FYs 2012 and 2013, respectively.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Inmate Welfare Fund as of September 30, 2012 and 2013, and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

In our report dated January 29, 2013, we expressed an opinion that the FY 2012 financial statements were presented fairly, in all material respects. As described on Note 2 to the financial statements, the Department of Corrections (DOC) overpaid the canteen services vendor for the amounts of the inmates' sales returns and credits, and the revenue recognized was understated by the same amounts. Accordingly, our present opinion on the FY 2012 financial statements, as presented herein, is different from that expressed in our previous report.

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued our report dated January 22, 2014, 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.



Mohamad K. Yusuff, CPA, Interim Executive Director
Office of Integrity and Oversight

January 22, 2014

**AUDIT OF THE INMATE WELFARE FUND FINANCIAL STATEMENTS FOR THE
FISCAL YEAR ENDED SEPTEMBER 30, 2013**

FINANCIAL STATEMENTS

**Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended September 30, 2013
(With Comparative Totals for the Year Ended September 30, 2012)**

	<u>2013</u>	<u>2012</u>
Revenues		
Realized revenue from canteen sales	\$30,208.90	\$29,070.23
Total Revenue	\$30,208.90	\$29,070.23
Expenditures		
Recreation and Sporting Equipment	\$14,104.64	\$5,541.50
Educational Supplies	\$3,864.24	\$6,806.70
Barbering Supplies	--	\$10,135.81
Substance Abuse Materials	--	\$1,814.00
Instructional Videos	--	\$4,350.00
Total Expenditures	\$17,968.88	\$28,648.01
Change in Fund Balance	\$12,240.02	\$422.22
Fund Balance, Beginning of the Year	\$436,261.77	\$435,839.55
Fund Balance, End of the Year	\$448,501.79	\$436,261.77

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, 2013**

**Balance Sheet
September 30, 2013
(With Comparative Totals at September 30, 2012)**

	<u>2013</u>	<u>2012</u>
Assets		
Cash	\$448,501.79	\$436,261.77
Total Assets	\$448,501.79	\$436,261.77
Liability		
Accrued Expenditures	\$4,190.96	\$4,190.96
Fund Equity		
Restricted Expendable Fund Balance	\$444,310.83	\$432,070.81
Total Liability and Fund Equity	\$448,501.79	\$436,261.77

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, 2013**

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, 2013**

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.

The net canteen sales were recorded on monthly basis in the District's System of Accounting and Reporting (SOAR) at the point of sale based on Deposits/Withdrawals Summary Reports generated by D.C. JACCS System (Jail and Community Corrections System). The net canteen sales equal the gross canteen sales less the inmates' sales returns and credits. Total net canteen sales recorded in SOAR for FYs 2012 and 2013 were \$1,341,665.47, and \$1,216,296.55 respectively. DOC did not subtract the amounts of the inmates' sales returns and credits (\$84,252, for FY 2012, and \$92,648.36, for FY 2013) from the invoices paid to the canteen services vendor. DOC overpaid the canteen services vendor the amount of \$84,252, and \$92,648.36 for FYs 2012 and 2013 respectively. Accordingly, the revenues recognized (the District's commission on commissary merchandise sold to inmates), the change in fund balance, and the restricted expandable fund balance for FYs 2012 and 2013, were understated by amounts equal to the total inmates' sales returns and credits.

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 District correctional facilities.

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

Thomas N. Faust, Director
Department of Correction

Angelique Hayes, 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 years ended September 30, 2012 and 2013, and have issued our report thereon dated January 22, 2014. 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.

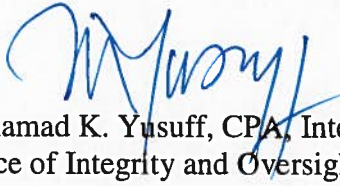
A deficiency in internal control exists when the design of operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatement on a timely basis. *A significant deficiency* is a deficiency, or combination 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 material weakness, as defined above.

DOC contract for commissary services requires the vendor to pay the District 9% commission on commissionable sales. This commission will be stated as a discount amount on the face of the invoice. DOC did not establish effective internal control policies and procedures to ensure the inmates' sales returns and credits are subtracted from the vendor's invoices before payment. As a result, DOC overpaid the canteen service vendor for amounts equal the inmates' sales returns and credits, and the District's commission on the canteen sales (the revenue) recognized in the financial statements was understated by the same amounts.

**AUDIT OF THE INMATE WELFARE FUND FINANCIAL STATEMENTS FOR THE
FISCAL YEAR ENDED SEPTEMBER 30, 2013**

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.



Mohamad K. Yusuff, CPA, Interim Executive Director
Office of Integrity and Oversight

January 22, 2014

**AUDIT OF THE INMATE WELFARE FUND FINANCIAL STATEMENTS FOR THE
FISCAL YEAR ENDED SEPTEMBER 30, 2013**

Recommendations:

We recommend that the Director of the DOC and the ACFO of Public Safety and Justice Cluster;

- 1- Conduct a review of all inmates' sales returns and credits against the invoices billed to, and paid by DOC, to determine any overpayments made to the canteen services vendor. In addition, take the appropriate actions to ensure that the canteen services vendor refunds to the District any overpayments made, from inception of the contract through FY 2013.
- 2- Establish effective internal control policies and procedures over the payment process to ensure that the inmates' sales returns and credits are appropriately subtracted from the vendor's invoices before payment.
- 3- Conduct monthly reconciliation between the total net canteen sales recorded in JACCS and posted to SOAR with the amounts billed by and paid to, the vendor; and ensure that the District's commission on the canteen sales is correctly recognized and recorded in accordance with the requirements of the contract with the vendor.

MANAGEMENT RESPONSE AND OIO COMMENT

Management Response (Recommendation 1-3)

The Director of the Department of Corrections and the Associate Chief Financial Officer for Public Safety and Justice Cluster concurred with the recommendations and provided target completion dates. DOC has completed the process of auditing and reconciling first quarter credits for FY 2014, for total adjustment of \$22,871.66, and has submitted them to OCFO for payment adjustments. Additionally, a thorough audit of all credits and invoices will be conducted from the contract inception to the present. A copy of complete response is included in Exhibit B.

OIO Comment

The DOC/OCFO's corrective action plan is responsive and meets the intent of the recommendations, and when completed should resolve the noted deficiencies.

EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS FROM AUDIT

No.	Recommendations	Type of Benefit	Agency Reported Estimated Completion Date	Status*
1	Conduct a review of all inmates' sales returns and credits against the invoices billed to, and paid by DOC, to determine any overpayments made to the canteen services vendor. In addition, take the appropriate actions to ensure that the canteen services vendor refunds to the District any overpayments made, from inception of the contract through FY 2013.	Economy	April 30, 2014	Open
2	Establish effective internal control policies and procedures over the payment process to ensure that the inmates' sales returns and credits are appropriately subtracted from the vendor's invoices before payment	Internal Control	June 30, 2014	Open
3	Conduct monthly reconciliation between the total net canteen sales recorded in JACCS and posted to SOAR with the amounts billed by and paid to, the vendor; and ensure that the District's commission on the canteen sales is correctly recognized and recorded in accordance with the requirements of the contract with the vendor.	Internal Control	May 30, 2014	Open

* 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: MANAGEMENT'S RESPONSE

OFFICE OF INTEGRITY
AND OVERSIGHT

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF CORRECTIONS

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Office of the Director

January 27, 2014

Mohamad K. Yusuf, CPA
Interim Executive Director
Office of Integrity and Oversight
Office of the Chief Financial Officer
1100 4th Street, SW, Suite 750
Washington, D.C. 20024

Dear Mr. Yusuf:

I am in receipt of your January 22, 2014 audit report entitled, Audit of the Inmate Welfare Fund Financial Statements for the Fiscal Year Ended September 30, 2013. The report was reviewed by Department of Corrections' (DOC) operations and contract administration staff, as well as Office of the Chief Financial Officer (OCFO) personnel involved in DOC financial management matters.

DOC welcomes your recommendations for improvement, but would also like the opportunity to verify overpayment estimates shown in the report. Enclosed are corrective action initiatives and timelines that not only address your recommendations, but also lay out a sound framework for "best practice" management of our Commissary contract.

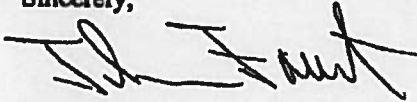
DOC has already completed the process of auditing and reconciling first quarter credits for fiscal year 2014, and has submitted them to the OCFO for payment adjustments. The credited amounts are as follows: October - \$7,339.59; November - \$7,528.23; and December - \$8,003.79, for a total adjustment of \$22,871.66 this fiscal year to date. The OCFO's office has also agreed to provide all invoices associated with the commissary contract, so that a thorough audit of all credits and invoices can be conducted from contract inception to the present. Finally, DOC has identified an audit team which will commence work on February 3, 2014.

APPENDIX 1: MANAGEMENT'S RESPONSE

**Letter to Mohamad K. Yusuf, CPA, Interim Executive Director, OIO, OCFO
Audit of the Inmate Welfare Fund Financial Statements for FY Ended September 30, 2013
Page 2
January 27, 2014**

If you require any further clarification in this matter, please contact Gloria Robertson, Audit and Compliance Manager at (202) 698-4944.

Sincerely,



**Thomas Faust
Director**

Sincerely,



**Angelique Hayes
Associate Chief Financial Officer, PSJC**

Enclosure

**cc: Thomas P. Hoey, Deputy Director for Management Support, DOC
Carolyn Cross, Deputy Director for Operations, DOC
Antoinette Hudson-Beckham, Agency Fiscal Officer, PSJC/DOC
Loretta Walker, Cluster Controller, PSJC
Gloria Robertson, Audit and Compliance Manager, DOC
Lisa Campbell, Chief of Acquisition Management, DOC**

APPENDIX 1: MANAGEMENT'S RESPONSE

AUDIT 2014 COMMISSARY RESPONSE

Corrective Action Plan

No.	Corrective Action Initiative	Projected Completion Date
1.	Notify vendor of audit findings. (Recommendation No. 1)	February 7, 2014
2.	Verify credit shortfalls cited in audit report. (Recommendation No. 1)	March 28, 2014
3.	Document current process. (Recommendation No. 2)	March 28, 2014
4.	Request Phase I refund of overpayment (Recommendation No. 1)	April 11, 2014
5.	Audit remaining invoices issued since inception of contract award. (Recommendation No. 1)	April 30, 2014
6.	Produce audit reports quarterly. (Recommendation No. 3)	April 30, 2014 July 31, 2014 October 31, 2014
7.	Request Phase II refund for any overpayment. (Recommendation No. 2)	May 16, 2014
8.	Develop Standard Operating Procedures (SOP), including audit tools. (Recommendation No. 2)	May 30, 2014
9.	Develop Memorandum of Understanding (MOU) between DOC and OCFO on roles and responsibilities of stakeholders. (Recommendation No. 3)	May 30, 2014
10.	Train assigned Contract Administrator staff on responsibilities and procedures. (Recommendation No. 2)	June 13, 2014
11.	Amend Commissary contract to assure safeguards. (Recommendation No. 2)	June 30, 2014