



Office of Integrity & Oversight

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

January 31, 2017

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

September 30, 2016

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



Office of Integrity and Oversight

January 31, 2017

Quincy L. Booth, Interim 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. 17-02-04 IWF) of the Balance Sheet of the Department of Corrections (DOC) Inmate Welfare Fund (IWF) as of September 30, 2016, 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.

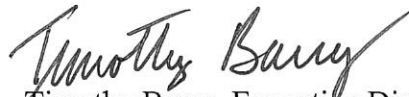
Unmodified Opinion on Financial Statements

In our opinion, the IWF Financial Statements for FY 2016 present fairly, in all material respects, the financial position of the Inmate Welfare Fund as of September 30, 2016, 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 deficiencies in internal controls over financial reporting, and provided recommendations to correct these internal control deficiencies. The Public Safety and Justice Cluster (PSJC)'s 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 text of the agency 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

cc: see Distribution List

DISTRIBUTION:

The Honorable Muriel Bowser, Mayor, District of Columbia
The Honorable Phil Mendelson, Chairman, Council of the District of Columbia
The Honorable Jack Evans, Chairperson, Committee on Finance and Revenue, Council of the District of Columbia
The Honorable Charles Allen, Chairperson, Committee on the Judiciary and Public Safety, Council of the District of Columbia
Ms. Nyasha Smith, Secretary to the Council of the District of Columbia
Mr. Rashad M. Young, City Administrator, District of Columbia
Mr. Jeffrey DeWitt, Chief Financial Officer, District of Columbia Government
Ms. Angell Jacobs, Deputy Chief Financial Officer and Chief of Staff, OCFO
Mr. Bill Slack, Deputy CFO, Office of Financial Operations and Systems, OCFO
Mr. David Tseng, General Counsel, OCFO
Ms. Marshelle Richardson, Chief Risk Officer, OCFO

**AUDIT OF THE INMATE WELFARE FUND FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

TABLE OF CONTENTS

INTRODUCTION 3

INDEPENDENT AUDITOR’S REPORT 4

FINANCIAL STATEMENTS

 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE 6

 BALANCE SHEET 7

 NOTES TO FINANCIAL STATEMENTS 8

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE..... 10

RECOMMENDATIONS 13

EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT 15

APPENDIX 1: PSJC MANAGEMENT’S RESPONSE.....16

**AUDIT OF THE INMATE WELFARE FUND FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

ACRONYMS

ACFO	Associate Chief Financial Officer
CFT	Central Treatment Facility
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
OFOS	Office of Financial Operations and Systems
OIO	Office of Integrity and Oversight
OFT	Office of Finance and Treasury
PSJC	Public Safety and Justice Cluster

**AUDIT OF THE INMATE WELFARE FUND FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

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 2016.

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, Interim 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, 2016, 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, 2016, 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, 2017, 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, 2017

**AUDIT OF THE INMATE WELFARE FUND FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

FINANCIAL STATEMENTS

**Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended September 30, 2016**

Revenue

Realized revenue from current year canteen sales \$ 93,605.24

Total Revenue **\$93,605.24**

Expenditures

Juvenile Program Services \$ 61,597.27

Recreation 30,660.02

Re-Entry Services 1,769.50

Case Management Services 767.04

Library 957.90

Programs Administration 38,511.58

Total Expenditures **\$134,263.31**

Change in Fund Balance **\$(40,658.07)**

Fund Balance, Beginning of the Year \$761,939.89

Fund Balance, End of the Year **\$721,281.82**

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, 2016**

**Balance Sheet
September 30, 2016**

Asset

Cash	\$	742,648.76
Accounts Receivable		<u>0.00</u>

Total Asset **\$742,648.76**

Liability

Vouchers Payable	\$	21,366.94
------------------	----	-----------

Fund Equity

Restricted Expendable Fund Balance	\$	<u>721,281.82</u>
------------------------------------	----	-------------------

Total Liability and Fund Equity **\$742,648.76**

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, 2016**

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, 2016**

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.

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 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 gross sales.

Note 3: Cash

The fund's cash is comprised of proceeds from the sale of goods through the commissary at the District's correctional facilities. As required by DC Law 24-282, the cash is to provide goods and services that benefit the general inmate population housed in the correctional facilities. The cash balances in FY 2016 and 2015 were \$742,649 and \$746,758, respectively.

Note 4: Vouchers Payable

Amounts owed to contractors for various IWF expenditures at fiscal year-end in the amount of \$21,366.94.

Note 5: 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, 2016 was \$721,281.82.

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

Quincy L. Booth, Interim Director
Department of Corrections

Angelique H. Rice, Associate Chief Financial Officer
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, 2016, and have issued our report thereon dated January 31, 2017. 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 deficiencies in internal control.

Purchase Card Transactions

The PSJC provided OIO with journal entries related to purchase card expenditures totaling \$35,588.41. OIO requested the supporting documentation for the expenditures. Upon our request, PSJC reviewed the supporting documentation and noted that \$14,361.03 of the \$35,588.41 in expenditures related to local budget activity and was incorrectly charged to the

IWF. To resolve this issue, PSJC accounting staff performed subsequent adjusting journal entries to reclassify the incorrectly charged purchase card expenditures to the local budget authority. It appears that the exceptions were due to the use of the incorrect funding attributes and a lack of timely review of purchase card transactions.

Revenues

The Public Safety and Justice Cluster records monthly revenues for the Inmate Welfare Fund as the difference between: a) canteen sales less any returns or credits; and b) expenditures for payments to the canteen vendor. PSJC uses the Monthly Jail and Community Corrections System (JACCS) Reports for this process.

The Department of Corrections' Contract Administration Department reviews the canteen vendor invoices and at the end of the month, enters the revenues, credits and or returns, and payments to the vendor on an internal department spreadsheet to ensure the vendor payment calculations are accurate. PSJC officials stated that there is a monthly process in place to reconcile the JACCS reports to the individual vendor invoices; however, during our examination, we noted a difference of approximately \$4,100.00 between the revenues recorded in JACCS and the individual canteen vendor invoices.

Other Matters

Cash Account

The Inmate Welfare Fund's cash collected from revenue sources (i.e. 9 percent discount on canteen vendor commissionable sales) is deposited into a custodial bank account with other cash sources from other District of Columbia agencies.

D.C. Code § 24-282(c) states in part that funds deposited into the IWF shall not be transferred or revert to the fund balance of the District's General Fund and shall continue to be available for the uses and purposes set forth in § 24-283.² Furthermore, as of February 1, 2017 the new Canteen Vendor contract will include sales of commissary items for another District of Columbia correctional facility called the Central Treatment Facility (CFT) with an addition of over 700 inmates to the current inmate population that orders canteen items. This additional inmate population will increase sales and therefore revenues and cash for the Inmate Welfare Fund.

Our examination did not reveal any matters related to asset misappropriation, and there is segregation of duties related to the recording of cash and the asset custody between the Public and Safety Justice Cluster (PSJC); the Office of Financial Operations and Systems (OFOS); and the Office of Finance and Treasury (OFT); however, due to the restrictions prescribed in DC Code § 24-282 and the additional inmate population that will bring revenues into the fund, we believe a good internal control practice will be to have a separate bank account for Inmate Welfare Fund revenues.

² D.C. Code § 24-283 uses and purposes have been described on page 3 of this report.

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, 2017

RECOMMENDATIONS:

We recommend that the ACFO for the Public Safety and Justice Cluster:

1. Ensure that the correct funding attributes are used when using the purchase card so that only allowable expenditures are charged to the Inmate Welfare Fund.
2. Establish timely supervisory review of purchase card activity to ensure only allowable purchase card expenditures are charged to the Inmate Welfare Fund.
3. Improve the monthly reconciliation process between JACCS reports and individual canteen vendor invoices to ensure revenues are accurate.
4. Request the Office of Finance and Treasury (OFT) to establish a separate bank account to deposit cash related to the Inmate Welfare Fund.

MANAGEMENT'S RESPONSE AND OIO COMMENTS:

Management's Response (Recommendation 1)

PSJC's management concurred with the recommendation and stated that they will ensure the funding attributes of purchase card expenditures reflect permissible IWF activity.

OIO Comments

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

Management's Response (Recommendation 2)

PSJC's management concurred with the recommendation and stated that they will implement the appropriate supervisory review to ensure that only permissible expenditures are charged to the IWF.

OIO Comments

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

Management's Response (Recommendation 3)

PSJC's management concurred with the recommendation and will be adding staff to the Inmate Finance Team to ensure JACCS reporting and vendor expenditures reconcile and agree.

OIO Comments

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

Management's Response (Recommendation 4)

PSJC's management stated they are investigating the possibility of a dedicated bank account for the IWF with OFOS and OFT.

OIO Comments

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 ³
1	Ensure that the correct funding attributes are used when using the purchase card so that only allowable expenditures are charged to the Inmate Welfare Fund.	Internal Control	February 1, 2017	Open
2	Establish timely supervisory review to ensure only allowable purchase card expenditures are charged to the Inmate Welfare Fund.	Internal Control	February 1, 2017	Open
3	Improve the monthly reconciliation process between JACCS reports and individual canteen vendor invoices to ensure revenues are accurate.	Internal Control	April 15, 2017	Open
4	Request the Office of Finance and Treasury (OFT) to establish a separate bank account to deposit cash related to the Inmate Welfare Fund.	Internal Control	During FY 2017	Open

³ 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'S MANAGEMENT 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

FROM: Angelique Hayes Rice *Angelique Hayes Rice*
Associate Chief Financial Officer

DATE: January 31, 2017

SUBJECT: OIO Draft Report No. 17-02-04 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, 2016.

The Public Safety and Justice Cluster comments are as follows:

Recommendation #1: Ensure that the correct funding attributes are used when using the purchase card so that only allowable expenditures are charged to the Inmate Welfare Fund (IWF). **Response** – Effective immediately, we will make sure the funding attributes of purchase card expenditures reflect permissible IWF activity.

Recommendation #2: Establish timely supervisory review of purchase card activity to ensure only allowable purchase card expenditures are charged to the Inmate Welfare Fund. **Response** – We will implement the appropriate supervisory review of purchase card activity to ensure that only permissible expenditures are charged to the IWF.

Recommendation #3: Improve the monthly reconciliation process between Jail and Community Corrections System (JACCS) reports and individual canteen vendor invoices to ensure revenues are accurate. **Response** – We concur with the recommendation and will be adding staff to the Inmate Finance Team by the end of February 2017, which will ensure JACCS reporting and vendor expenditures reconcile and agree.

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

APPENDIX 1: PSJC'S MANAGEMENT RESPONSE

Page Two
Timothy Barry
January 31, 2017

Recommendation #4: Request the Office of Finance and Treasury (OFT) to establish a separate bank account to deposit cash related to the Inmate Welfare Fund. **Response** – We are investigating the possibility of a dedicated bank account for the IWF with the Office of Financial Operations and System and the Office of Finance and Treasury.

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