COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

JOHN NAIMO
AUDITOR-CONTROLLER

November 9, 2015

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

FROM: John Naimo
Auditor-Controller

SUBJECT: **SHERIFF'S DEPARTMENT – INMATE WELFARE FUND FINANCIAL/ COMPLIANCE AUDIT – FISCAL YEARS 2011-12 THROUGH 2013-14**

The Inmate Welfare Fund (IWF) is administered by the Sheriff's Department (Sheriff), and governed by the Inmate Welfare Commission (Commission). The Commission is comprised of private citizens appointed by the Sheriff. The IWF receives profits from sales of items and services to inmates and the public (e.g., commissary sales, inmate telephone services, etc.). IWF monies are used for the benefit, education, and welfare of inmates, and for jail maintenance.

At the Sheriff's request, we contracted with an outside Certified Public Accounting firm, BCA Watson Rice LLP (BCAWR), to conduct a financial/compliance audit of the IWF for Fiscal Years 2011-12 through 2013-14. BCAWR's audit was intended to express an opinion on the IWF's financial statements, and determine whether the Sheriff properly accounted for and disbursed IWF funds. BCAWR conducted the audit under the Auditor-Controller's Master Agreement.

Review Summary

BCAWR's attached report indicates that the IWF's financial statements present fairly, in all material respects, the financial position of the IWF as of June 30, 2012, 2013, and 2014, and the results of its operations and the changes in its net financial position for the years then ended.

As part of the audit, BCAWR reviewed the IWF's internal controls over financial reporting and did not identify any deficiencies that they consider to be material weaknesses. BCAWR tested the IWF's compliance with certain provisions of laws, regulations, contract agreements, and other matters, including California Penal Code Section 4025. BCAWR noted no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

During the course of their review, BCAWR made recommendations for the Sheriff to automate the preparation of Commission reports, and to prepare and submit three additional informational reports to the Commission. BCAWR discussed the results of their review with Sheriff's representatives, who generally agreed with the recommendations.

Prior Audit Reports

BCAWR indicated that two outstanding recommendations from prior IWF audit reports (Fiscal Years 2004-05 through 2006-07) are partially resolved.

Details of BCAWR's recommendations and the Sheriff's responses on both the current and prior recommendations are discussed in Exhibits B through E (Pages 26, 27, and 32 of 36) of BCAWR's attached report.

If you have any questions please call me, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:RS:MP

Attachment

c: Sachi A. Hamai, Chief Executive Officer
Jim McDonnell, Sheriff
Public Information Office
Audit Committee

County of Los Angeles
Sheriff's Department Inmate Welfare Fund

Financial Statements
And Independent Auditor's Report

For the Fiscal Years Ended
June 30, 2014, 2013, and 2012

BCA Watson Rice LLP
Certified Public Accountants and Advisors
21250 Hawthorne Blvd. Suite 150 Torrance, CA 90503
t: (310) 792-4640 f: (310) 792-4140

COUNTY OF LOS ANGELES
SHERIFF'S DEPARTMENT INMATE WELFARE FUND

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED JUNE 30, 2014, 2013 AND 2012

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BCA Watson Rice LLP
Certified Public Accountants and Advisors

21250 Hawthorne Blvd. Suite 150
Torrance, CA 90503
www.bcawatsonrice.com

Telephone: 310.792.4640
Facsimile: 310.792.4331

INDEPENDENT AUDITORS' REPORT

Jim McDonnell
Sheriff
County of Los Angeles
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of the County of Los Angeles Sheriff's Department Inmate Welfare Fund (IWF), a fund of the County of Los Angeles, as of and for the fiscal years ended June 30, 2014, 2013, and 2012, and the related notes to the financial statements, which collectively comprise the IWF's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The IWF's 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 the 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 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 IWF'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 IWF as of June 30, 2014, 2013 and 2012, and the results of its operations and the changes in its net financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated August 3, 2015, on our consideration of the IWF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract agreements, and other matters. 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* in considering the IWF's internal control over financial reporting and compliance.

BCA Watson Rice, LLP

Torrance, CA
August 3, 2015

COUNTY OF LOS ANGELES
SHERIFF'S DEPARTMENT INMATE WELFARE FUND

BALANCE SHEET
JUNE 30, 2014, 2013 AND 2012

	2014	2013	2012
Assets			
Assets			
Equity in cash and pooled investments	$ 42,996,414	$ 44,407,988	$ 50,308,684
Interest receivable	80,627	36,126	22,102
Due from County of Los Angeles	982,285	4,254,362	1,046,065
Total assets	$ 44,059,326	$ 48,698,476	$ 51,376,851
Liabilities and Fund Balance			
Liabilities			
Vouchers payable	$ 1,050,055	$ 576,804	$ 838,736
Due to County of Los Angeles	3,596,295	5,565,858	2,835,026
Total liabilities	4,646,350	6,142,662	3,673,762
Fund Balance			
Committed	27,261,928	26,146,613	26,013,798
Unassigned	12,151,048	16,409,201	21,689,291
Total net assets	39,412,976	42,555,814	47,703,089
Total liabilities and fund balance	$ 44,059,326	$ 48,698,476	$ 51,376,851

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

COUNTY OF LOS ANGELES
SHERIFF'S DEPARTMENT INMATE WELFARE FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE FISCAL YEARS ENDED JUNE 30, 2014, 2013 AND 2012

	2014	2013	2012
Revenues			
Commissions	$ 33,639,533	$ 34,099,291	$ 31,654,487
Hacienda La Puente Education program refund	-	-	5,803,126
Investment income	276,868	310,845	392,916
Miscellaneous	728,775	640,315	614,299
Total revenues	34,645,176	35,050,451	38,464,828
Expenditures			
Food	10,441,385	10,137,695	9,550,203
Technical services	6,313,639	7,975,457	8,423,781
Maintenance-building and improvements	4,840,415	4,615,122	4,764,987
Computing mainframe	4,330,865	4,887,136	63,943
Professional services	1,599,682	791,841	2,452,891
Administrative services	1,233,431	1,270,817	949,001
Equipment	943,285	1,619,523	370,789
Office expenses	904,158	435,894	284,150
Small tools and minor equipment	856,985	830,228	464,746
Special department expense	625,846	547,881	499,459
Maintenance-equipment	591,529	400,361	552,117
Computing personal	373,969	90,256	129,754
Rents and leases – equipment	373,248	64,680	108,487
Clothing and personal supplies	296,416	273,304	162,713
Telecommunications	196,963	462,526	161,236
Communications	166,507	136,347	148,476
Household expenses	74,944	103,910	179,415
Transportation and travel	54,288	24,377	30,469
Training	52,880	18,583	1,400
Medical, dental and laboratory supplies	33,137	40,661	11,936
Computing midrange departmental systems	27,562	3,179	-
Agricultural	-	7,141	5,960
Memberships	-	-	48
Information technology services	-	-	22,194
Miscellaneous	2,326	2,693	226
Total operating expenses-carried forward	$ 34,333,460	$ 34,739,612	$ 29,338,381

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

COUNTY OF LOS ANGELES
SHERIFF'S DEPARTMENT INMATE WELFARE FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEARS ENDED JUNE 30, 2014, 2013 AND 2012

	2014	2013	2012
Total operating expenses-brought forward	$ 34,333,460	$ 34,739,612	$ 29,338,381
Excess of revenues over expenditures	311,716	310,839	9,126,447
Other financing sources (uses)			
Transfers-out to County of Los Angeles general fund	(3,542,156)	(5,543,292)	(2,688,000)
Excess (deficit) of revenues over expenditures and other financing uses	(3,230,440)	(5,232,453)	6,438,447
Fund balance at beginning of year, as originally stated	42,555,814	47,703,089	40,910,855
Prior-period adjustments (Note 9)	87,602	85,178	353,787
Fund balance at beginning of year, as restated	42,643,416	47,788,267	41,264,642
Fund balance at end of year	$ 39,412,976	$ 42,555,814	$ 47,703,089

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

COUNTY OF LOS ANGELES
SHERIFF'S DEPARTMENT INMATE WELFARE FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2014, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the County of Los Angeles Sheriff's Department Inmate Welfare Fund (IWF) have been prepared in conformity with accounting principles generally accepted in the United States of America. The accounting policies of the IWF conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant of such policies.

Financial Reporting Entity

The IWF was established pursuant to the State of California Penal Code Section 4025. The major sources of revenues of the IWF are composed of commissions received from contracted telephone services and commissary sales and vending machine sales which are for the inmates' use and benefit. Additionally, the IWF receives reimbursement from Hacienda La Puente Unified School District for ADA (average daily attendance) money that it receives from the State for inmates that receive educational services. The expenditures of the IWF are governed by the California Penal Code Section 4025 which states that "The money and property in the inmate welfare fund shall be expended by the sheriff primarily for the benefit, education, and welfare of the inmates confined within the jail. Any funds that are not needed for the welfare of the inmates may be expended for the maintenance of county jail facilities. Maintenance of county jail facilities may include, but is not limited to, the salary and benefits of personnel used in the programs to benefit the inmates, including, but not limited to, education, drug and alcohol treatment, welfare, library, accounting, and other programs deemed appropriate by the sheriff."

Starting with the fiscal year beginning July 2000, and as required by the State of California Penal Code Section 4025, fifty-one percent (51%) of the annual IWF revenue was assigned solely and exclusively to programs for the benefit, welfare, rehabilitation, and education of jail inmates. The remaining forty-nine percent (49%) of the annual IWF revenue is earmarked solely for jail maintenance.

The Inmate Welfare Commission (IWC) oversees the expenditures for inmate programs, including but not limited to educational, rehabilitative and other expenditures for the welfare and benefit of the inmates. The Sheriff's Correctional Services Division, County Counsel Representative, and Budget Authority oversee the expenditures for jail maintenance.

COUNTY OF LOS ANGELES
SHERIFF'S DEPARTMENT INMATE WELFARE FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2014, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The governmental fund financial statement is presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., both measurable and available). "Available" means collectible within the current period or within 60 days after year-end. Expenditures are recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Basis of Presentation

The IWF is reported as a special revenue governmental type fund of the County of Los Angeles. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Governmental funds are presented using the flow of current financial resources measurement focus. Generally this means only current assets and current liabilities are included on the balance sheet. Governmental fund operating statements focus on measuring changes in financial position, rather than net income. The operating statement presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. The unassigned fund balance is a measurement of available spendable resources.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the related reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

COUNTY OF LOS ANGELES
SHERIFF'S DEPARTMENT INMATE WELFARE FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2014, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Sources of Revenues

The majority of the IWF's revenues are derived from commissions from a few telephone and vending machine companies. For the fiscal years ended June 30, 2014, 2013 and 2012, the percentages of revenue received from each of the following companies to total revenues were as follows.

	Percentage to Total Revenue		
Revenue Source	2014	2013	2012
Commissions			
Telephone Commission - Global Tel*Link Corporation and Public Communication Services, Inc.	43%	43%	34%
Hacienda La Puente Education Program Fund	-	-	15.65%
Commissary Commission-Keefe Commissary Network	54%	54%	47%
Vending Machine Commission – Compass Group	-	0.10%	0.35%
Other Revenues			
Investment income	1%	1%	1%
Miscellaneous (Vocational Activities, Jail Enterprise Unit, etc.)	2%	2%	2%

NOTE 2 - EQUITY IN CASH AND POOLED INVESTMENTS

The IWF cash is included in the County's balance sheet as "Equity in Cash and Pooled Investments". The County maintains a cash and investment pool for all funds of the County and other agencies for which the County treasury is the depository. Interest earned on the pooled funds is allocated and credited to these funds quarterly. Further disclosures regarding the County's cash and investments are included in the Notes of the County's fiscal years ended June 30, 2014, 2013 and 2012 Comprehensive Annual Financial Report.

COUNTY OF LOS ANGELES
SHERIFF'S DEPARTMENT INMATE WELFARE FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2014, 2013 AND 2012

NOTE 3 - FUND BALANCE

In the fund financial statements, the governmental funds report the classification of fund balance in accordance with GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." The reported fund balances are categorized as non-spendable, restricted, committed, assigned, or unassigned based on the extent to which the IWF Commissioners are bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Non-spendable Fund Balance - amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories and long-term notes receivable.

Restricted Fund Balance – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. Restrictions may effectively be changed or lifted only by changing the condition of the constraint.

Committed Fund Balance – amounts that can only be used for the specific purposes determined by a formal action of the Authority's highest level of decision-making authority, the Authority's Board. Commitments may be changed or lifted only by the Authority taking the same formal action that imposed the constraint originally. The underlying action that imposed the limitation needs to occur no later than the close of the fiscal year.

Assigned Fund Balance – amounts intended to be used by the Authority for specific purposes that are neither restricted nor committed. The intent can be established at either the highest level of decision making, or by a body or an official designated for that purpose.

Unassigned Fund Balance – the residual classification for the Authority's General Fund that includes amounts not contained in other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The IWF Commissioners establishes, modifies, or rescinds fund balance commitments and assignments through the adoption of the budget and subsequent amendments that occur throughout the fiscal year.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

COUNTY OF LOS ANGELES
SHERIFF'S DEPARTMENT INMATE WELFARE FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2014, 2013 AND 2012

NOTE 4 - TRANSFERS OUT

Transfers to support the operations of other funds are recorded as "Transfers Out" and are classified as "Other Financing Uses." Transfers out to County of Los Angeles General Fund for the fiscal years ended June 30, 2014, 2013, and 2012 were $3,542,156, $5,543,292, and $2,688,000, respectively.

NOTE 5 - DUE TO/FROM COUNTY OF LOS ANGELES

Due to/from County of Los Angeles consists of expenditures and revenues that have been paid or received on behalf of the IWF, by the County of Los Angeles and have not yet been transferred to the IWF as of the end of the fiscal year. Due from County of Los Angeles for the fiscal years ended June 30, 2014, 2013, and 2012 were $982,285, $4,254,362, and $1,046,065, respectively. Due to County of Los Angeles for the fiscal years ended June 30, 2014, 2013, and 2012 were $3,596,295, $5,565,858, and $2,835,026, respectively.

NOTE 6 – EQUIPMENT/CAPITAL OUTLAYS

Capital outlay consists of expenditures for equipment, machinery, and vehicles. The IWF does not capitalize these expenditures, but the County of Los Angeles (which the Inmate Welfare Fund is a fund of) does capitalize capital outlays. Please see the County of Los Angeles fiscal years ended June 30, 2014, 2013 and 2012, Comprehensive Annual Financial Report for further information regarding capital outlays.

COUNTY OF LOS ANGELES
SHERIFF'S DEPARTMENT INMATE WELFARE FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2014, 2013 AND 2012

NOTE 7 - SUBSEQUENT EVENTS

The IWF had an agreement with the Hacienda La Puente Unified School District (District) to establish, supervise, and maintain classes for adult education and to provide testing, guidance, and educational vocational services at the Sheriff's Facilities. The IWF made quarterly payments throughout the fiscal year (based on an estimated amount determined prior to the start of the fiscal year) to reimburse the District for the cost of services provided for inmates. After the fiscal year end, the District determined the actual amount expended for the IWF and took this difference and added in the amount that the State reimbursed the District for the Average Daily Attendance (ADA) of the inmates. This amount was refunded back to the IWF.

During fiscal year 2010-2011, the IWF discontinued the adult education services provided by the District to the inmates due to the District's inability to meet the obligation of the agreement, particularly the remittance of the ADA reimbursement for the fiscal years 2008-2009 and 2009-2010. On May 17, 2011, the IWF formally informed the District of its intention to terminate its Adult Education Services Agreement effective August 15, 2011. On May 11, 2012, the IWF received $5,803,126 from the District as reimbursement of the FY 2008-2009 ADA apportionment. The ADA reimbursement for fiscal year 2009-2010 of $4 million remains uncollected from the District as of the date of this report.

NOTE 8 – AGREEMENTS AND COMMITMENTS

Inmates Education Services

On June 28, 2011, the IWF entered into an agreement with the Human Services Consortium of the East San Gabriel Valley, dba LA Works to provide Vocational, Life Skills and GED Preparation and Testing Services for the inmates. The total maximum amount of the contract is $22,734,373. The contract expired on May 26, 2014, and the total payments to LA Works up to its contract expiration were $21,398,962.

On August 20, 2012, the IWF entered into a Memorandum of Understanding (MOU) with Five Keys Charter School (Charter School) for the education services of the inmates, whereby the Charter School will provide the services at no cost to the County. The Charter School shall recover its cost of providing the education services through the Average Daily Attendance (ADA) reimbursement from the State or other independent funding to be out-sourced by the Charter School. The MOU will expire on July 30, 2017.

COUNTY OF LOS ANGELES
SHERIFF'S DEPARTMENT INMATE WELFARE FUND

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014, 2013 AND 2012

NOTE 8 – AGREEMENTS AND COMMITMENTS (Continued)

Inmate Telephone System and Services

The IWF has a contract with AT&T, which was subsequently assigned to Global Tel*Link Corporation on February 21, 2010, in which it receives an annual amount for telephone commissions based on the contract terms. Effective January 1, 2011, the contract with Global Tel*Link Corporation was extended until October 31, 2011, in which payments of commissions to the County is on a monthly basis based upon actual commissions earned by the County.

On November 1, 2011, a new Inmate Telephone System and Services agreement was executed between the LA County Sheriff's IWF and Public Communication Services, Inc. wherein the IWF will earn a Minimum Annual Guarantee in telephone commissions of $15 million or a monthly telephone commission of $1,250,000 to be paid every 10th day of each month. The agreement will expire on October 31, 2016.

Food and Commissary Agreement

The IWF has also a contract with a third party that provides goods (food and other products purchased by inmates) in which the vendor sells goods to the inmates and provides a commission based on the total sales to the IWF.

NOTE 9 – PRIOR PERIOD ADJUSTMENTS

The fund balances as of June 30, 2014, 2013 and 2012 were restated to reflect the following adjustments:

	2014	2013	2012
Fund balance beginning of the year, as originally stated	$42,555,814	$47,703,089	$40,910,855
Prior-period adjustments:			
1) Prior-year vending machine commission recognized in the current year	-	16,372	13,284
2) Prior-year web food sales commission recognized in the current year	77,852	68,806	39,503
3) Prior-year vocational activities revenue recognized in the current year	9,750	-	-
4) Prior-year miscellaneous income recognized in the current year			301,000
Total prior-period adjustments	87,602	85,178	353,787
Fund balance beginning of the year, as restated	$42,643,416	$47,788,267	$41,264,642

BCA Watson Rice LLP
Certified Public Accountants and Advisors

21250 Hawthorne Blvd. Suite 150
Torrance, CA 90503
www.bcawatsonrice.com

Telephone: 310.792.4640
Facsimile: 310.792.4331

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Jim McDonnell
Sheriff
County of Los Angeles
Los Angeles, California

We have audited, 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, the financial statements of the County of Los Angeles Sheriff's Department Inmate Welfare Fund (IWF) as of and for the fiscal years ended June 30, 2014, 2013, and 2012, and the related notes to the financial statements and have issued our report thereon dated August 3, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the IWF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the IWF's internal control. Accordingly, we do not express an opinion on the effectiveness of the IWF's internal control.

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 misstatements on a timely basis. 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 financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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, contract agreements, and other matters, including California Penal Code Section 4025, 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,* including the requirement of California Penal Code Section 4025.

Restriction on Use

This report is intended for the information and use of the management of the County of Los Angeles Sheriff's Department, the County of Los Angeles Board of Supervisors, Auditor-Controller, and the Inmate Welfare Fund Commission and is not intended to be and should not be used by anyone other than these specified parties. However, this limitation is not meant to limit the distribution of this report which is a matter of public record.

BCA Watson Rice, LLP

Torrance, CA
August 3, 2015

BCA Watson Rice LLP
Certified Public Accountants and Advisors

21250 Hawthorne Blvd. Suite 150
Torrance, CA 90503
www.bcawatsonrice.com

Telephone: 310.792.4640
Facsimile: 310.792.4331

Jim McDonnell
Sheriff
County of Los Angeles
Los Angeles, California

In planning and performing our audit of the financial statements of the County of Los Angeles Sheriff's Department Inmate Welfare Fund (IWF) for the fiscal years ended June 30, 2014, 2013 and 2012 on which we have issued our reports dated August 3, 2015, we considered the IWF's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements of the IWF and not to provide assurance on the internal control structure. Such consideration would not disclose all matters in the internal control structure that might be deficiencies, significant deficiencies, or material weaknesses under standards established by the American Institute of Certified Public Accountants.

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 misstatements in a timely basis. 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 did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

During our audit, we noted no matters involving internal control and operational matter that is presented for your consideration.

This communication is intended solely for the information and use of the management of the County of Los Angeles Sheriff's Department, the County of Los Angeles Board of Supervisors, Auditor-Controller, and the Inmate Welfare Commission and is not intended to be and should not be used by anyone other than these specified parties. However, this limitation is not meant to limit the distribution of this report which is a matter of public record.

BCA Watson Rice, LLP

August 3, 2015
Torrance, California

County of Los Angeles

Sheriff's Department Inmate Welfare Fund

Report on Applying Agreed-Upon Procedures

For the Period
July 1, 2011 through June 30, 2014

BCA Watson Rice LLP
Certified Public Accountants and Advisors
21250 Hawthorne Blvd. Suite 150 Torrance, CA 90503
t: (310) 792-4640 f: (310) 792-4140

COUNTY OF LOS ANGELES
SHERIFF'S DEPARTMENT INMATE WELFARE FUND

AGREED-UPON PROCEDURES
FOR THE PERIOD JULY 1, 2011 TO JUNE 30, 2014

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BCA Watson Rice LLP
Certified Public Accountants and Advisors

21250 Hawthorne Blvd. Suite 150
Torrance, CA 90503
www.bcawatsonrice.com

Telephone: 310.792.4640
Facsimile: 310.792.4331

INDEPENDENT AUDITORS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Jim McDonnell
Sheriff
County of Los Angeles
Los Angeles, California

We have performed the procedures enumerated below, which were agreed to by the County of Los Angeles Sheriff's Department and the Auditor-Controller (County), solely to assist the County in evaluating the internal controls over revenues and expenditures, and the financial reporting system of the County of Los Angeles Sheriff's Department Inmate Welfare Fund (IWF) for the period July 1, 2011 through June 30, 2014.

This engagement to apply agreed-upon procedures was performed in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified parties of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures are enumerated below and the results of each procedure are summarized in the exhibits of these reports.

Procedures	Results and Recommendations
1. Perform reconciliation and review of the Average Daily Attendance (ADA) reimbursement received by Hacienda La Puente School District relating to adult educational services provided to the inmates.	Exhibit A
2. Review the financial statements formats and make recommendations to improve functionality, lay-out, ease of understanding, terminology, and the requirement for each statement prepared.	Exhibit B
3. Determine if additional financial statements or reports should be prepared and submitted to the Inmate Welfare Commission (IWC), and whether any existing financial statements or reports are not necessary.	Exhibit C

4. Evaluate and make recommendations to strengthen the disbursement process and internal controls over revenue and expenditures.	Exhibit D
5. Review the prior agreed-upon procedures report and determine the implementation status of prior year's recommendations which were reported as partially resolved.	Exhibit E

This report is intended solely for the use of the management of the County of Los Angeles Sheriff's Department, the County of Los Angeles Board of Supervisors, Auditor-Controller, and the Inmate Welfare Commission and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this limitation is not meant to limit the distribution of this report which is a matter of public record.

BCA Watson Rice, LLP

August 3, 2015
Torrance, California

Exhibit A

LOS ANGELES COUNTY
SHERIFF'S INMATE WELFARE FUND

AGREED-UPON PROCEDURES
RECONCILIATION AND REVIEW OF
AVERAGE DAILY ATTENDANCE (ADA) REIMBURSEMENTS
BY HACIENDA LA PUENTE SCHOOL DISTRICT (DISTRICT)
FOR THE PERIOD JULY 1, 2011 THROUGH JUNE 30, 2014

There were no payments made to Hacienda La Puente School District (the District) for the period July 1, 2011 through June 30, 2014. The adult education services provided by the Hacienda La Puente School District to the inmates terminated as of August 15, 2011. On May 11, 2012, the IWF received $5,803,126 from the District as reimbursement of the FY 2008-2009 Average Daily Attendance (ADA) apportionment. The ADA reimbursement for fiscal year 2009-2010 of $4 million remains uncollected from the District as of the date of this report.

On June 28, 2011, the LA County IWF entered into an agreement with the Human Services Consortium of the East San Gabriel Valley, dba LA Works for Vocational, Life Skill and GED Preparation and Testing Purposes of the Inmates, as a replacement for the terminated services of the District. The maximum amount of the contract was $22,734,373. The total payments made to LA Works up to its contract expiration on May 26, 2014 totaled $21,398,962.

On August 20, 2012, the IWF entered into a Memorandum of Understanding (MOU) with Five Keys Charter School (Charter School) for the education services of the inmates, whereby the Charter School will provide the services at no cost to the County. The Charter School shall recover its cost of providing the education services through the Average Daily Attendance (ADA) reimbursement from the State or other independent funding to be out-sourced by the Charter School. The MOU will expire on July 30, 2017.

Exhibit B

LOS ANGELES COUNTY
SHERIFF'S INMATE WELFARE FUND

AGREED-UPON PROCEDURES
REVIEW OF FINANCIAL STATEMENTS FORMATS SUBMITTED TO INMATE WELFARE COMMISSION (IWC)
FOR THE PERIOD JULY 1, 2011 THROUGH JUNE 30, 2014

Reports Submitted to Inmate Welfare Commission	Observations, Comments, Recommendations and Management's Response
1) ***Statement of Net Assets*** – This statement contains the assets (cash, interest receivable and due from other funds), liabilities (vouchers payable and due from other funds), and net assets (comprising the encumbrances, approved request and the available funds). The primary purpose of this report is to present the remaining available net assets, which will serve as a guide for the Commissioners to determine whether funds are available when they make a decision to approve or disapprove a funding request.	Observations: 1) We reviewed the reports as of June 30, 2014 and noted that the amount of total assets and total liabilities are not indicated in the report. 2) The report shows assets minus liabilities equals total assets. It should be assets minus liabilities equal net assets. Management's Response: The Department will implement changes to address observations #1 and #2.
2) ***Cash Balance Schedule*** – The primary purpose of this report is to present the movement of the cash account from the beginning of the fiscal year until the end of the fiscal year. The ending balance is the amount of cash presented in the Statement of Net Assets report (no. 1 above)	As is, no improvements recommended.
3) ***Carry Over Fund*** - The primary purpose of this page is to support the amount of the carry over fund presented in the cash balance schedule. This report shows the difference between the balances of the assets (except cash) and liabilities, which is forwarded to the Cash Balance Schedule report.	As is, no improvements recommended.
4) ***Anticipated Revenue Worksheet*** - This schedule presents the itemized year-to-date anticipated revenue and actual revenue collected. It also presents the over and under revenue realized (anticipated versus actual) during the year. The format of this report was designed to assist the Commissioners in determining at a glance how much was the anticipated revenue and the actual amount collected or realized. The amount of collected	As is, no improvements recommended.

Exhibit B

LOS ANGELES COUNTY
SHERIFF'S INMATE WELFARE FUND

AGREED-UPON PROCEDURES
REVIEW OF FINANCIAL STATEMENTS FORMATS SUBMITTED TO INMATE WELFARE COMMISSION (IWC)
FOR THE PERIOD JULY 1, 2011 THROUGH JUNE 30, 2014

Reports Submitted to Inmate Welfare Commission	Observations, Comments, Recommendations and Management's Response
revenue in this report supports the amount of revenue as presented in the cash balance schedule.	
5) ***Expenditures Summary*** – This schedule is an itemization of the year to date inmate programs and facilities expenditures by expenditure categories.	As is, no improvements recommended.
6) ***Schedule Due From Other Funds*** – This schedule is an itemization of the year to date money due from other funds (within the County) to the inmate programs and facilities infrastructure. The total amount of due from other funds flows to the Closing Statement of Net Assets.	As is, no improvements recommended.
7) ***Schedule of Due To Other Funds*** – This schedule is an itemization of the year to date money due to other funds (within the County) from the inmate programs and facilities infrastructure. The total amount of due to other funds flows to the Closing Statement of Net Assets.	As is, no improvements recommended.
8) ***Schedule of Accounts Payable*** – This is an itemization of the inmate programs and facilities infrastructure vouchers payable balance year to date that flows into the Statement of Net Asset.	As is, no improvements recommended
9) ***Schedule of Vouchers Payable*** – This is an itemization of the inmate programs and facilities infrastructure vouchers payable balance year to date that flows into the Statement of Net Asset.	As is, no improvements recommended.

Exhibit B

LOS ANGELES COUNTY
SHERIFF'S INMATE WELFARE FUND

AGREED-UPON PROCEDURES
REVIEW OF FINANCIAL STATEMENTS FORMATS SUBMITTED TO INMATE WELFARE COMMISSION (IWC)
FOR THE PERIOD JULY 1, 2011 THROUGH JUNE 30, 2014

Reports Submitted to Inmate Welfare Commission	Observations, Comments, Recommendations and Management's Response
10) ***Schedule of Encumbrances*** – This is an itemization of the inmate programs and facilities infrastructure encumbrances (approved purchased orders but no delivery yet of the products or services). This amount is presented under net assets in the closing statement of net assets.	As is, no improvements recommended.
11) ***Schedule of Approved Requests*** – This is an itemization of the inmate programs and facilities infrastructure requests (approved request for funding but no purchased order yet). This amount is presented under net assets in the closing statement of net assets.	As is, no improvements recommended.

Exhibit B

LOS ANGELES COUNTY
SHERIFF'S INMATE WELFARE FUND

AGREED-UPON PROCEDURES
REVIEW OF FINANCIAL STATEMENTS FORMATS SUBMITTED TO INMATE WELFARE COMMISSION (IWC)
FOR THE PERIOD JULY 1, 2011 THROUGH JUNE 30, 2014

General Observations

In reviewing the foregoing reports we considered the usefulness of the data presented with regards to the requirements of the Inmate Welfare Commission. We found the foregoing reports are useful for the Commissioners in making decisions in overseeing the Inmate Welfare Fund.

We noted however, that the preparation of the foregoing reports would entail considerable time to complete since these are manually prepared using the Microsoft Excel software, which is also reconciled to the eCAPS reports.

Recommendation

As indicated in the prior-year audit recommendation, we recommend that the Department consider automating the preparation of the foregoing reports by using computerized bookkeeping software or to have the above reports captured and designed from the eCAPS.

Management's Response

The Department will continue the process of automating the preparation of monthly financial statements and related reports. To date, the automation of the schedule of expenditures and schedule of encumbrances has been implemented.

Exhibit C

LOS ANGELES COUNTY
SHERIFF'S INMATE WELFARE FUND

AGREED-UPON PROCEDURES
RECOMMENDED ADDITIONAL REPORTS TO BE SUBMITTED TO THE INMATE WELFARE COMMISSION
FOR THE PERIOD JULY 1, 2011 THROUGH JUNE 30, 2014

Based on the review of the present reports submitted to the IWC, we recommend that the following additional reports be prepared and submitted to the IWC:

Monthly

1) Statement of revenues and expenditures (Exhibit C-1) – with comparative data of the previous month. Currently, the revenues and expenditures are presented only as supporting schedules.

End of Year

1. Comparative balance sheet – with variance explanation for the end of year only, period 13 of eCAPS (Exhibit C-2). This report is very useful in the evaluation the financial strength of the IWF as compared to previous year data. Moreover, this report is needed by the independent auditors to facilitate the performance of their annual audit.

2. Comparative statement of revenues and expenditures - with variance explanation for the end of year only, period 13 of eCAPS (Exhibit C-3). This report is very useful in evaluating the results of operations of the IWF as compared to previous year operations. Moreover, this report is needed by the independent auditors to facilitate the performance of their annual audit.

The sample formats of the foregoing reports are presented in the succeeding pages for additional reference.

Management's Response

The Department will revisit implementation of a Monthly comparative report as the automation of existing reports proceeds or is completed. Currently the implementation of a Monthly comparative report is not feasible at this time due to the labor intensive nature of developing the existing reports and time restrictions.

The Department will implement End of Year variance explanation reports (Comparative statement of revenues and expenditures and Comparative balance sheet), period 13 eCAPS. However, the sub-categories will vary from the examples provided (Exhibit C-2 an Exhibit C-3).

Exhibit C - 1

LA COUNTY SHERIFF'S DEPARTMENT INMATE WELFARE FUND
STATEMENT OF REVENUE AND EXPENSES
FOR THE MONTH ENDED_____
(Sample Format)

	Inmate Programs	Facilities Infrastructure	Current Month Total Inmate Welfare Fund	Last Month Total Inmate Welfare Fund
Revenue				
Commissions:				
Telephone	$ XX,XXX,XXX	$ XX,XXX,XXX	$ XX,XXX,XXX	$ XX,XXX,XXX
Commissary (Keefe)	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Vending machines	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Total Commissions	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Interest income	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Jail enterprise unit	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Vocational activities (Hobby Craft)	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Miscellaneous	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Total revenue	$ XX,XXX,XXX	$ XX,XXX,XXX	$ XX,XXX,XXX	$ XX,XXX,XXX
Expenditures				
Badges, ID cards and emblems	$ XX,XXX,XXX	$ XX,XXX,XXX	$ XX,XXX,XXX	$ XX,XXX,XXX
Inmate clothing	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Other personal supplies	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Barber and personal hygiene supplies	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Building systems	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Mail service	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Etc. (itemized based on chart of accounts)	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Total expenditures	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Excess (deficit) of revenue over Expenditures	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Transfers out to County of LA	(XX,XXX,XXX)	(XX,XXX,XXX)	(XX,XXX,XXX)	(XX,XXX,XXX)
Net excess (deficit) of revenue over Expenditures	$ XX,XXX,XXX	$ XX,XXX,XXX	$ XX,XXX,XXX	$ XX,XXX,XXX

Exhibit C - 2

LA COUNTY SHERIFF'S DEPARTMENT INMATE WELFARE FUND
COMPARATIVE BALANCE SHEET - END OF YEAR
AS OF _____ (Period 13)
(Sample Format)

	Current Year As of Period 13	Last Year As of Period 13	Variance	% of Variance	Variance Explanation
Assets					
Cash (Attachment I)	$ XX,XXX,XXX	$ XX,XXX,XXX	$ XX,XXX,XXX	%	
Accounts receivable (Attachment II)	XXX,XXX	XXX,XXX	XXX,XXX	%	
Interest receivable	XX,XXX	XX,XXX	XX,XXX	%	
Due from other funds (Attachment II)	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	%	
Total assets	$ XX,XXX,XXX	$ XX,XXX,XXX	$ XX,XXX,XXX	%	
Liabilities and Fund Balance					
Due to other funds (Attachment V)	$ XX,XXX,XXX	$ XX,XXX,XXX	$ XX,XXX,XXX	%	
Accounts payable (Attachment VI)	XX,XXX	XX,XXX	XX,XXX	%	
Vouchers payable (Attachment VII)	XX,XXX	XX,XXX	XX,XXX	%	
Deferred revenue	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	%	
Total liabilities	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	%	
Fund Balance					
Committed - Encumbrance (Attachment III)	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	%	
Assigned - Approved request (Attachment IV)	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	%	
Assigned - Outstanding requisitions (Attachment IV-A)	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	%	
Total	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	%	
Unassigned	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	%	
Total fund balance	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	%	
Total liabilities and fund balance	$ XX,XXX,XXX	$ XX,XXX,XXX	$ XX,XXX,XXX	%	

Exhibit C – 3

LA COUNTY SHERIFF'S DEPARTMENT INMATE WELFARE FUND
COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES
FOR THE FISCAL YEAR ENDED (Period 1 to 13)
(Sample Format)

	Current Year Period 1 to 13	Last Year Period 1 to 13	Variance	% of Variance	Variance Explanation
Revenue					
Commissions:					
Telephone	$ XX,XXX,XXX	$ XX,XXX,XXX	$ XX,XXX,XXX	%	
Commissary	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	%	
Vending machines	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	%	
Total Commissions	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	%	
Interest income	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	%	
Jail enterprise unit	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	%	
Vocational activities	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	%	
Indigent kits	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	%	
Miscellaneous	XX,XXX	XX,XXX	XX,XXX	%	
Total revenue	$ XX,XXX,XXX	$ XX,XXX,XXX	$ XX,XXX,XXX	%	
Expenditures					
Badges, ID cards and emblems	$ XX,XXX,XXX	$ XX,XXX,XXX	$ XX,XXX,XXX	%	
Inmate clothing	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	%	
Other personal supplies	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	%	
Barber and personal hygiene supplies	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	%	
Building systems	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	%	
Mail service	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	%	
Etc. (itemized based on chart of accounts)	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	%	
Total expenditures	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	%	
Excess (deficit) of revenue over expenditures	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	%	
Transfers out to County of LA	(XX,XXX,XXX)	(XX,XXX,XXX)	(XX,XXX,XXX)	%	
Net excess (deficit) of revenue over expenditures	$ XX,XXX,XXX	$ XX,XXX,XXX	$ XX,XXX,XXX	%	

Exhibit D

LOS ANGELES COUNTY
SHERIFF'S INMATE WELFARE FUND

AGREED-UPON PROCEDURES
REVIEW OF INTERNAL CONTROLS OVER REVENUE AND EXPENDITURES
FOR THE PERIOD JULY 1, 2011 THROUGH JUNE 30, 2014

Overall, based on the results of our review of the Inmate Welfare Fund's internal controls, particularly in the areas of disbursements process and controls over revenues and expenditures, we found that the controls are generally working. We noted no findings or internal control weaknesses during our audit for the fiscal years 2011/2012, 2012/2013, and 2013/2014.

Exhibit E

LOS ANGELES COUNTY
SHERIFF'S INMATE WELFARE FUND

AGREED-UPON PROCEDURES
FOR THE PERIOD JULY 1, 2011 THROUGH JUNE 30, 2014

STATUS OF PRIOR YEAR'S AUDIT FINDINGS AND RECOMMENDATIONS

Prior Years Audit Findings and Recommendations	Status as of FY 2013-2014	Management's Response
Prior-Auditor's Recommendations:		
1. Manual processing and computing used to account for IWF funds – The Inmate Welfare Fund should acquire an accounting system that is specifically designed for a governmental organization and has the capabilities to perform the reportorial requirements of the Department. This would increase the amount of information available to the Department, decrease the amount of time involved in the preparation of reports and data, decrease the possibility of human errors, and increase the security flexibility of IWF accounting information.	**Partially Resolved.** As of June 30, 2014, the Expenditure Detail and Encumbrance Detail Schedules have been automated. Other reports and schedules continue to be prepared using Microsoft Excel software.	The Department will continue the process of automating the preparation of monthly reports to address the recommendation. The automation of other reports is delayed due to the limited availability of resources (e.g., personnel and financial resources) and other priority projects.
2. *Untimely Refund of IWF Monies* – The Department should follow-up with the Hacienda La Puente School District (District) at the end of each fiscal year in order to ensure that it receives its monies timely.	**Partially Resolved.** The latest reimbursement received from the District was on May 11, 2012, which was applicable for FY 2008-2009 Average Daily Attendance (ADA) apportionment. The Department sent a demand letter to the District for the FY 2009-2010 ADA reimbursement of $4 Million. The adult education services provided by the District to the Inmates were terminated during fiscal year 2010-2011.	As of May 26, 2015, by way of mediation process, a tentative settlement has been reached between the County and Hacienda La Puente Unified School District.

BCA Watson Rice LLP
Certified Public Accountants and Advisors

21250 Hawthorne Blvd. Suite 150
Torrance, CA 90503
www.bcawatsonrice.com

Telephone: 310.792.4640
Facsimile: 310.792.4331

August 3, 2015

Jim McDonnell
Sheriff
County of Los Angeles
Los Angeles, California

Dear Mr. McDonnell:

We have audited the basic financial statements of the County of Los Angeles Sheriff's Department Inmate Welfare Fund (IWF) as of and for the fiscal years ended June 30, 2014, 2013, and 2012, and have issued our report thereon dated August 3, 2015. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility under Generally Accepted Auditing Standards (and when applicable, *Government Auditing Standards*)

Our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of IWF solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

There were no findings regarding significant control deficiencies over financial reporting and material noncompliance noted during our audit.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you during our entrance conference.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by IWF is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during fiscal years 2013-14, 2012-13, and 2011-12. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are encumbrances. Encumbrances are estimations of cost related to unperformed contracts for goods and services.

Management's estimate of the encumbrance is based on expenditures that will ultimately result if unperformed contracts in process at fiscal year end are completed. We evaluated the key factors and assumptions used to develop the encumbrance and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting IWF's financial statements relate to Note 7, Subsequent Events.

> The IWF had an agreement with the Hacienda La Puente Unified School District (District) to establish, supervise, and maintain classes for adult education and to provide testing, guidance, and educational vocational services at the Sheriff's Facilities. The IWF made quarterly payments throughout the fiscal year (based on an estimated amount determined prior to the start of the fiscal year) to reimburse the District for the cost of services provided for inmates. After the

fiscal year end, the District determined the actual amount expended for the IWF and took this difference and added in the amount that the State reimbursed the District for the Average Daily Attendance (ADA) of the inmates. This amount was refunded back to the IWF.

During fiscal year 2010-2011, the IWF discontinued the adult education services provided by the District to the inmates due to the District's inability to meet the obligation of the agreement, particularly the remittance of the ADA reimbursement for the fiscal years 2008-2009 and 2009-2010. On May 17, 2011, the IWF formally informed the District of its intention to terminate its Adult Education Services Agreement effective August 15, 2011. On May 11, 2012, the IWF received $5,803,126 from the District as reimbursement of the FY 2008-2009 ADA apportionment. The ADA reimbursement for fiscal year 2009-2010 of $4 million remains uncollected from the District as of the date of this report.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. There are no uncorrected misstatements relating to IWF.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to IWF's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the letter dated August 3, 2015.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Findings or Issues

In the normal course of our professional association with IWF, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as IWF's auditors.

This report is intended solely for the information and use of the use of the management of the County of Los Angeles Sheriff's Department, the County of Los Angeles Board of Supervisors, Auditor-Controller, and the Inmate Welfare Fund Commission and is not intended to be and should not be used by anyone other than these specified parties. However, this limitation is not meant to limit the distribution of this report which is a matter of public record.

Very truly yours,

BCA Watson Rice, LLP