



# 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

**ARLENE BARRERA**  
AUDITOR-CONTROLLER

**OSCAR VALDEZ**  
CHIEF DEPUTY AUDITOR-CONTROLLER

April 28, 2021

**TO:** Each Supervisor  
**FROM:** Arlene Barrera, Auditor-Controller  
**SUBJECT: SHERIFF'S DEPARTMENT – INMATE WELFARE FUND FINANCIAL COMPARISON REVIEW**

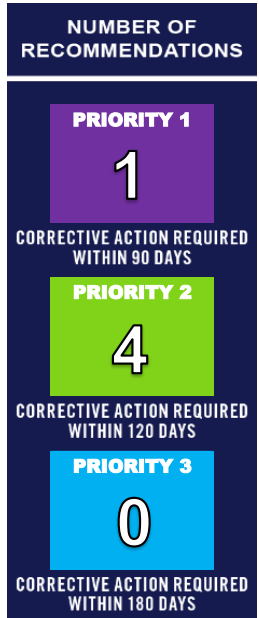
With the support and active participation of the Sheriff's Department (Sheriff or Department), at the request of the Audit Committee, we completed a multi-year revenue and expenditure comparison of the Inmate Welfare Fund (IWF or Fund) and compared the Department's IWF expenditures with other local counties. Our review of the Sheriff's design for their processes and controls over the IWF is addressed under a separate cover in our Sheriff's IWF Process review.

Our review did not include an evaluation of the Sheriff's efficiency and/or effectiveness in achieving the Fund's goals and objectives, whether IWF expenditures complied with California Penal Code (CPC) Section 4025, etc. We also did not audit the Sheriff's explanations and/or reasons for IWF revenue and expenditure variances. The Department plans to hire an independent accounting firm to perform a financial/compliance audit for Fiscal Years 2016-17, 2017-18, and 2018-19, which will cover some of these areas. Part of the scope of this review is to ensure that the expenditures are consistent with the CPC and that Funds were properly accounted for, authorized, and documented.

This review is intended to provide high-level data/information on the Sheriff's IWF revenue, expenditures, and Fund balance. It did not include an audit of these areas. A separate, more detailed review would be required for specific conclusions and recommendations for the areas reviewed.

We noted opportunities for the Sheriff to improve and strengthen IWF processes and controls, which management has agreed to strengthen. For example:

- The Sheriff will establish a process/control to ensure they develop and maintain a multi-year spending plan to account for the IWF balance.
- The Sheriff will work with County Counsel to obtain a legal opinion on the appropriate allocation of the IWF for inmate program and jail maintenance expenditures, as defined by CPC Section 4025 and ensure compliance with County Counsel's interpretation.



## FAST FACTS

*For Fiscal Year 2018-19 the Sheriff received approximately \$25.2 million in net IWF revenue and reported total net expenditures of over \$31.2 million (Net revenues and expenditures have been reduced for the payments to the contractor for the cost of the commissary and vending items sold).*

*As of February 28, 2021, the IWF had a balance of approximately \$29.8 million.*

Board of Supervisors

April 28, 2021

Page 2

These enhancements will provide greater assurance that the Department uses the IWF in compliance with CPC Section 4025, improve accountability over the Fund, and ensure the balance of the IWF is appropriately monitored.

For details of our comparison of IWF financial data/information, see Attachment I. For 'Table of Findings and Recommendations for Corrective Action', see Attachment II. The Department's response, included in Attachment III, indicates agreement with two recommendations, disagreement with two recommendations, and partial agreement with one recommendation.

Note that this review was delayed due to several other priority assignments. In addition, certain departments may experience delays with implementing corrective actions due to the challenges and impact of COVID-19. As a result, in some instances, the Sheriff's anticipated implementation date may exceed the Auditor-Controller's established recommendation priority implementation timeframes. We will follow-up on the implementation status of each recommendation during our first scheduled follow-up review.

We thank Sheriff management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Mike Pirolo at [mpirolo@auditor.lacounty.gov](mailto:mpirolo@auditor.lacounty.gov).

AB:OV:PH:MP:JU:gu

Attachments

c: Fesia A. Davenport, Chief Executive Officer  
Celia Zavala, Executive Officer, Board of Supervisors  
Alex Villanueva, Sheriff

**Sheriff's Department**  
**Inmate Welfare Fund Financial Comparison Review**

At the request of the Audit Committee, we completed a multi-year revenue and expenditures comparison of the Sheriff's Department's (Sheriff or Department) Inmate Welfare Fund (IWF or Fund) and provided additional details on IWF inmate programs and jail maintenance expenditures for the most recently completed Fiscal Year (FY) 2018-19. We also compared the Department's IWF expenditures to other local counties. Details of these areas are discussed below.

**Background**

The IWF receives revenue from the sale of items and services to inmates and to the public (e.g., commissary sales and telephone services). As required by the California Penal Code (CPC or Code), IWF monies are to be used for the benefit, education, and welfare of inmates confined within the jail, and the maintenance of County jail facilities. The IWF is administered and managed by the Sheriff, with oversight by both the Department and the Inmate Welfare Commission (IWC or Commission). The Commission oversees IWF program expenditures, and the Sheriff's Facility Services Bureau (FSB or Bureau) administers and oversees all IWF jail maintenance/upgrade expenditures.

The IWC generally meets monthly to discuss planned program funding uses, review and make recommendations to the Sheriff for funding of education, recreation, vocational training, counseling, and community transition, etc. The Department provides IWF funding updates and presentations to the IWC at these meetings, and prepares monthly business reports for the Commission, which include details of the Fund's revenues, expenditures, program enrollments, etc. The IWC makes recommendations to the Sheriff for inmate programs and are required to review and approve all funding requests over \$10,000 for projects benefiting inmates housed in County jails. However, the Sheriff has the ultimate authority to determine what allocation and use of funds is in the best interest of inmates.

**Fund Balance**

Table 1 below depicts the IWF's balance of approximately \$15.3 million as of June 30, 2019, and the year-end balance over the last three fiscal years has been at least 49% of the annual Fund expenditures. However, we also noted that the IWF balance has decreased each of the past three fiscal years reviewed, resulting in a fund balance reduction of approximately \$9.1 million (37%), from \$24.4 million to \$15.3 million. Sheriff's management indicated that the year-to-year decrease in the IWF balance is due to expenditures continuing to exceed Fund revenue.

<b>Table 1 Inmate Welfare Fund Balance Fiscal Years 2016-17 to 2018-19</b>			
	<u>FY 2016-17</u>	<u>FY 2017-18</u>	<u>FY 2018-19</u>
<b>Revenue (A)</b>	\$ 23,771,646	\$ 26,328,693	\$ 25,154,411
<b>Expenditures</b>	29,317,785	29,351,552	31,221,286
<b>Fund Balance (B)</b>	<b>\$ 24,362,073</b>	<b>\$ 21,339,214</b>	<b>\$ 15,272,340</b>
<p>(A) These amounts include the net revenues from commissary and vending machine sales (Total Sheriff's commissary and vending items revenue minus the Department's payment to their contractor for cost of the items sold).</p> <p>(B) This amount reflects the actual balance in the IWF at the end of the fiscal year and does not include reserves for encumbrances, funding set aside that is reserved for a specific liability/obligation, which reduces the Fund's available balance. The Sheriff had approximately \$2.7 million in IWF reserves for encumbrances for FY 2018-19, \$3 million in IWF reserves for encumbrances for FY 2017-18, and \$2 million for FY 2016-17.</p> <p>Source: Sheriff's Department and eCAPS (unaudited)</p>			

Additional details of the IWF's revenue and expenditures are described in detail below.

We noted that the Sheriff annually budgets their IWF revenues and expenditures and maintains separate accounts for the portion of the Fund balance available for inmate programs and jail maintenance expenditures. However, to ensure that the Sheriff appropriately monitors and manages the IWF balance and to implement best practices, the Department needs to establish a process/control to ensure that they develop and maintain a multi-year spending plan to account for the IWF balance. See Attachment II Issue 1 for additional information and a recommendation for the Sheriff to develop and maintain a multi-year spending plan.

### Revenue and Expenditures

#### Multi-Year Summary

As indicated in Table 2, below, revenue has ranged from approximately \$23.8 million to \$26.3 million over the past three fiscal years. In addition, Salaries and Employee Benefits (S&EB) expenditures increased by approximately \$5.7 million (62%) from FY 2016-17 to FY 2018-19, while Services and Supplies (S&S) expenditures decreased by \$3.8 million (19%) over that same time period.

**Table 2**  
**Multi-Year Revenue and Expenditures Comparison**  
**From Fiscal Year 2016-17 to 2018-19**

<u>Category</u>	<u>FY 2016-17</u>	<u>FY 2017-18</u>	<u>FY 2018-19</u>
<b>REVENUE (A)</b>			
Commissary/Vending Items - Net of the cost of items sold (C)	\$ 7,600,851	\$ 10,222,780	\$ 9,552,822
Telephone	15,000,000	15,016,500	15,000,000
Meal Program	309,983	295,206	-
Interest	363,152	463,445	532,016
Miscellaneous	424,495	274,042	6,975
Jail Enterprise Unit	73,164	56,720	62,598
<b>Total Revenue</b>	<b>\$ 23,771,646</b>	<b>\$ 26,328,693</b>	<b>\$ 25,154,411</b>
<b>EXPENDITURES (B)</b>			
<b>Salaries and Employee Benefits (S&amp;EB)</b>			
Inmate Services Bureau	\$ 4,921,000	\$ 4,921,000	\$ 2,637,187
Community Transition Unit	2,648,000	2,648,000	3,492,000
Education Based Incarceration	-	-	2,672,566
Jail Enterprise Unit	274,373	274,373	224,000
Information Technology Specialist	181,000	181,000	284,000
Facilities Services Bureau	662,000	4,662,000	5,314,530
Tattoo Clinic	255,203	110,782	-
IWF Administration	259,000	259,000	308,717
<b>Total S&amp;EB</b>	<b>\$ 9,200,576</b>	<b>\$ 13,056,155</b>	<b>\$ 14,933,000</b>
<b>Services and Supplies (S&amp;S)</b>			
Education Services	\$ 4,606,179	\$ 5,393,329	\$ 6,443,265
Administrative and Professional Services	2,916,789	3,858,816	3,419,058
Other Services	318,444	302,015	279,565
Information Technology and Communications	7,911,075	3,078,794	572,555
Maintenance Building and Improvements	1,808,724	1,232,343	1,741,407
Equipment	864,623	832,935	930,937
Personal and Office Supplies	1,130,544	1,169,227	2,075,549
Miscellaneous	560,831	427,938	825,950
<b>Total S&amp;S</b>	<b>\$ 20,117,209</b>	<b>\$ 16,295,397</b>	<b>\$ 16,288,286</b>
<b>Total Expenditures</b>	<b>\$ 29,317,785</b>	<b>\$ 29,351,552</b>	<b>\$ 31,221,286</b>
<b>Difference (D)</b>	<b>\$ (5,546,139)</b>	<b>\$ (3,022,859)</b>	<b>\$ (6,066,875)</b>

(A) The year-to-year revenue variances are the result of a shift in program services to other County departments, fluctuations in demand, etc.

(B) The year-to-year expenditure variances are primarily attributed to a shift in the funding source for the Tattoo Clinic, the ending of an Information Technology contract, fluctuations in program/service needs, etc.

(C) These amounts represent the net revenues from commissary and vending machine sales (Total Sheriff's commissary and vending item revenue minus the Department's payment to their contractor for cost of the items sold).

(D) Please note, the excess expenditures are paid from the IWF remaining Fund balance.

Source: Sheriff's Department and eCAPS (unaudited)

### **Multi-Year Revenue**

As indicated in Table 2, above, the primary sources of IWF revenue from FY 2016-17 to FY 2018-19 are commissary/vending machine sales from commissions charged to inmates for the purchase of various food items, optional hygiene products, etc., and telephone services from commissions attributed to the use of pay telephones by inmates within the Department's jail facilities. Specifically, over the past three fiscal years, inmate telephone call services revenue averaged \$15 million, and commissary/vending machine sales revenue averaged a net amount of \$9.1 million, which comprises 96% of the Department's total average annual IWF revenue. In addition, the Sheriff's Miscellaneous Revenue decreased from approximately \$424,000 to \$7,000 from FY 2016-17 to FY 2018-19. This decrease is primarily attributed to the elimination of Jail Hospital Information System maintenance payments from the Probation Department since the Department of Health Services took over these services in 2008.

In April 2020, the Board approved a two-year commissary, vending and telephone services contract extension. While these contracts usually cover a five-year term, Sheriff's management reduced the length of the contract due to the time required to complete the solicitation for the successor contract for these services.

The Sheriff management could not estimate the potential impacts of Senate Bill 555, , which will impose further restrictions on the markup and sale of commissary items, and require that all IWF be used solely for the benefit and welfare on the incarcerated people confined within the jail, enrolled by State legislature on September 3, 2020. However, the Department indicated that that program and facilities services in the Sheriff's jails would need to be scaled back accordingly. The Department also indicated that they may submit a funding request for the Chief Executive Office and the Board of Supervisor's consideration, and/or submit an unfunded mandate claim to backfill the loss of revenue to the California State Controller's Office.

### **Multi-Year Expenditures**

We noted that the Sheriff's IWF expenditures for S&EB have increased from \$9.2 million to \$14.9 million from FY 2016-17 to FY 2018-19. The increase is primarily attributed to additional S&EB expenditures for FSB of approximately \$4.7 million and increases in S&EB costs. Sheriff management indicated the increase in FSB expenditures are attributed to the Department requesting reimbursement for more eligible FSB expenditures from the IWF, whereas, previously they only charged a portion of the Bureau's total costs since they had concerns about depleting the Fund balance too quickly. However, as mentioned in the "Fund Balance" section above, the Sheriff has not developed a multi-year spending plan to better account for the IWF balance. We also noted an increase in Education Based Incarceration (EBI) S&EB expenditures of \$2.7 million and a decrease in Inmate Services Bureau (ISB) S&EB costs of \$2.3 million over that same time period. Sheriff's management indicated that this difference is primarily due to the Department separately reporting the EBI portion of the EBI costs starting in FY 2018-19. Sheriff's management indicated that EBI expenditures totaled approximately \$1.9 million each year for FY 2016-17 and FY 2017-18.

In addition, we noted that S&S expenditures related to information technology and communications have decreased in each of the last three fiscal years. Sheriff's management indicated that the decrease is primarily attributed to the retirement of a contract with Cerner Corporation in November 2017 for the Jail Health Information System.

**FY 2018-19 Expenditures by Category**

As indicated in Table 3, below, the Sheriff's total IWF expenditures were approximately \$31.2 million for FY 2018-19. Specifically, the Department IWF program expenditures that are intended for the benefit, education, and/or welfare of inmates in the County's jail facilities accounted for approximately \$19.2 million (62%) and IWF jail maintenance costs totaled approximately \$11.8 million (38%) for the fiscal year.

<b>Table 3</b>			
<b>Actual Program and Jail Maintenance Expenditures by Category</b>			
<b>Fiscal Year 2018-19</b>			
<b>Category</b>	<b>Program</b>	<b>Jail Maintenance</b>	<b>Total</b>
<b>Salaries and Employee Benefits (S&amp;EB)</b>			
Inmate Services Bureau - IWF contract monitoring, IWC coordination, etc.	\$ 2,637,187	\$ -	\$ 2,637,187
Education Based Incarceration	2,672,566	-	2,672,566
Community Transition Unit - Links inmates to various organizations	3,492,000	-	3,492,000
Jail Enterprise Unit - Vocational Training Programs	224,000	-	224,000
Information Technology Specialist	284,000	-	284,000
Facilities Services Bureau - Maintenance support, alteration services, etc.	-	5,314,530	5,314,530
IWF Administration	308,717	-	308,717
<b>Total S&amp;EB Expenditures</b>	<b>\$ 9,618,470</b>	<b>\$ 5,314,530</b>	<b>\$ 14,933,000</b>
<b>Services and Supplies (S&amp;S)</b>			
Education Services	\$ 6,443,265	\$ -	\$ 6,443,265
Administrative and Professional Services	871,230	2,547,828	3,419,058
Other Services - Data conversion, environmental, etc.	41,230	238,335	279,565
Information Technology - Computer systems, communications, etc.	364,172	208,383	572,555
Maintenance Building and Improvements	61,525	1,679,881	1,741,406
Equipment	346,599	584,339	930,938
Personal and Office Supplies	1,341,672	733,877	2,075,549
Miscellaneous - Training, travel, special departmental, etc. (A)	351,158	474,792	825,950
<b>Total S&amp;S Expenditures</b>	<b>\$ 9,820,851</b>	<b>\$ 6,467,435</b>	<b>\$ 16,288,286</b>
<b>Total IWF Expenditures</b>	<b>\$ 19,439,321</b>	<b>\$ 11,781,965</b>	<b>\$ 31,221,286</b>
(A) These amounts do not include approximately \$10 million in expenditures for Sheriff's payments to contractors for the cost of the commissary and vending items sold. Note that cost of the goods sold were a direct offset to the Department's IWF revenues.			
Source: Sheriff's Department and eCAPS (unaudited)			

As indicated, S&EB comprises approximately \$14.9 million (52%) of the Department's \$31.2 million in total expenditures for FY 2018-19. S&EB expenditures were primarily related to the costs of approximately \$5.3 million (36%) for Facility Services Bureau to provide facility/jail maintenance support, and \$3.5 million (23%) for the Community Transition Unit to provide services that link inmates to various organizations upon their release from County jail. In addition, \$2.7 (18%) million were expended on EBI to provide inmates with adult basic education, and \$2.6 million (18%) for the Inmate Services Bureau to oversee the operations of both internal (e.g., Community Transition Unit and EBI) and contracted (e.g., Education and Professional Services)

IWF programs/services, monitor IWF contracts, etc. Sheriff management indicated that the IWF is not used to finance S&EB costs associated with recreation time for inmates.

We also noted S&S comprises of approximately \$16.3 million (48%) of the Department's total FY 2018-19 IWF expenditures. S&S expenditures were primarily attributed to costs of \$6.4 million (40%) for educational services (e.g., inmate courses on information technology, parenting, and job preparation), \$3.4 million (21%) for administrative and professional services (e.g., life skills training, installation and implementation of the Jail Information Management System), and \$2.1 (13%) million for personal and office supplies.

### **Non-IWF Inmate Programs**

In addition to the inmate programs conducted and funded under the IWF, it should be noted that the Sheriff offers high school education and over 15 other inmate programs. These inmate programs include faith-based courses, parenting skills/support, improved family relationship curriculums, and animal assisted therapy that are intended to provide inmates with spiritual growth, better parenting/relationship skills, reduce jail violence, help to reduce recidivism, etc.

Sheriff management indicated that these programs are at no cost to the Department or County since they are either provided on a voluntarily basis and/or are funded directly by the State, non-profit agencies/organizations, etc. The Department also indicated that they have written agreements with the service providers for each of these programs. However, Sheriff's management indicated that they incur indirect personnel costs to administer, manage, and coordinate these programs.

### **Expenditures Comparison to Other Local Counties**

As indicated in Table 4, below, we compared the Sheriff's FY 2017-18 expenditures to three other local counties (Orange, San Bernardino, and San Diego). Our comparison was grouped into broader categories (e.g., Administrative, Professional Services), and primarily based on expenditure data/information that each county reports annually to their Board of Supervisors and discussions with their respective Fund managers/staff.



<b>Table 4 Expenditures Comparison with Other Local Counties Fiscal Year 2017-18</b>												
<b>Category</b>	<b>Los Angeles (A)</b>		<b>Orange</b>		<b>San Bernardino</b>		<b>San Diego</b>					
<b>Salaries &amp; Employee Benefits</b>	\$	13,056,155	44%	\$	2,212,181	65%	\$	2,644,253	78%	\$	2,972,564	41%
<b>Services &amp; Supplies</b>												
Educational Services		5,393,329	18%					227,360	7%		2,206,342	30%
Administrative, Professional Services, etc.		4,160,831	14%					257,335	8%		1,138,998	16%
Inmate Goods and Supplies		751,536	3%		1,055,842 (B)	31%			0%		324,742	4%
Miscellaneous (e.g., supplies, training, etc.)		845,052	3%					104,599	3%		368,370	5%
Information Technology		3,078,794	10%		-	0%		31,881	1%		-	0%
Building, Improvement, and Equipment		2,065,278	7%		115,222	3%		82,862	2%		80,474	1%
Books, Publications, & Subscriptions		576	0%		13,824	0%		27,947	1%		195,041	3%
<b>Total Expenditures</b>	<b>\$</b>	<b>29,351,552</b>	<b>100%</b>	<b>\$</b>	<b>3,397,069</b>	<b>100%</b>	<b>\$</b>	<b>3,376,237</b>	<b>100%</b>	<b>\$</b>	<b>7,286,531</b>	<b>100%</b>
Avg. Daily Inmate Population		17,114			6,112			6,427			6,714	
<b>Avg. Expenditures Per Inmate/Year</b>	<b>\$</b>	<b>1,715 (C)</b>		<b>\$</b>	<b>556</b>		<b>\$</b>	<b>525</b>		<b>\$</b>	<b>1,085</b>	
<p>(A) Total IWF expenditures do not include payments of \$10.2 million to the Sheriff's contractor for commissary and vending items sold since these expenditures are offset with a corresponding amount of revenue (\$39.5 million total expenditures - \$10.2 million = \$29.3 million) and other counties did not include these expenditures.</p> <p>(B) Orange County's reported Services &amp; Supplies expenditures combine Educational Services, Administrative and Professional Services, Inmate Goods and Supplies, and the Miscellaneous cost categories. As a result, this reflects the combined amount for these cost categories.</p> <p>(C) The Sheriff's higher IWF expenditures per inmate/year is attributed to higher telephone and commissary revenue collections, and a higher amount of jail maintenance costs (e.g., Information Technology and Building, Improvement, and Equipment) compared to other local counties that we sampled. Please see the explanation below for additional details.</p>												
Source: Sheriff's Department for each County, Board of Supervisor correspondence, and the Board of State and Community Corrections (unaudited).												

### Funding Allocation and Uses

Based on our limited review, the Sheriff appears to spend a lower percentage of their IWF revenue on inmate programs, compared with the other local counties reviewed. Specifically, the Sheriff's historical practice is to annually allocate and spend at least 51% on inmate programs and up to 49% on jail maintenance. However, the three other counties we reviewed appeared to spend a higher percentage of their Fund revenue on direct services related to inmate programs.

Our March 2021 Sheriff's IWF Process report addresses concerns with the Department allocating funds based on historical practices and includes recommendations to ensure that inmate program needs are periodically reviewed and evaluated. In addition, while the Sheriff's IWC provides oversight of the Sheriff's IWF program funds and the Department's FSB administers and manages IWF jail maintenance costs, although not a requirement of the Department and/or stipulated in California Penal Code 4025, the Department does not perform any comparisons on IWF processes and/or funding uses with other local counties. As a result, the Department was not able to determine the reasons for the differences in Fund allocations, collections, and expenditures noted above.

To ensure that the Sheriff's IWF practices and processes are compared with the standards of other local counties to identify best practices, the Department should strengthen their IWF monitoring practices by periodically benchmarking IWF practices with peer counties to identify, evaluate, and implement best practices where applicable. See Attachment II Issue 2 for additional information and a recommendation to strengthen the Sheriff's IWF monitoring practices.

## **Fund Revenue and Expenditures**

As indicated in Table 4, above, the Sheriff's average IWF expenditures per inmate was significantly higher than the three counties we reviewed. Specifically, for FY 2017-18, the Department's average net expenditures per inmate was approximately \$1,715, compared to \$525, \$556, and \$1,085 for San Bernardino, Orange, and San Diego counties, respectively.

The higher average expenditures per inmate appears to be the result of the Sheriff collecting more IWF revenue than the other counties, and the use of a portion of the Fund's balance/reserves. For example, for FY 2017-18, the Sheriff collected approximately \$21.6 million more in net IWF revenue than Orange County (\$26.3 million compared to \$4.7 million). The difference is largely due to the Sheriff's telephone revenue of \$15 million, and commissary and vending revenue of \$10.2 million, compared to approximately \$3.3 million and \$1 million for Orange County, respectively. While the Sheriff's average daily inmate population was 2.8 times larger than Orange County (17,114 inmates compared to 6,112 inmates), the Department's revenue was approximately two times more per inmate over that same time period. We were not able to identify the IWF revenue sources and funding amounts for the two other counties reviewed.

During our overview of Fund's revenues and expenditures, we noted that commissary and telephone revenues and rates have not significantly changed over the past several years. In addition, the Sheriff does not periodically review the mark-up fees/rates charged and their impacts to ensure that they continue to be reasonable and appropriate. While maintaining the same mark-up fees/rates may be appropriate, the Department should strengthen their IWF monitoring controls by periodically reviewing and evaluating the mark-up charged to inmates and their families under the commissary/vending machine and telephone contracts/amendments to ensure the profit margin for these goods/services is fair and appropriate. See Attachment II Issue 3 for additional information and a recommendation to strengthen the Sheriff's IWF monitoring controls.

## **Funding Allocation**

CPC Section 4025 requires that the IWF be expended by the Sheriff "primarily for the benefit, education, and welfare of the inmates confined within the jail" and that "any funds not needed for the welfare of inmates may be expended for the maintenance of County jail facilities."

As mentioned, the Sheriff has historically allocated approximately 51% of IWF revenues to inmate program expenditures and 49% on jail maintenance. However, we noted that the Sheriff cannot ensure that their 51%/49% split methodology is consistent with the intent of CPC Section 4025.

To ensure the Sheriff's allocation and usage of the IWF complies with the CPC, Sheriff's management needs to work with County Counsel to obtain a legal opinion on the appropriate allocation of the IWF for inmate program and jail maintenance expenditures as defined by CPC Section 4025 and ensure compliance with County Counsel's interpretation. See Attachment II Issue 4 for additional information and a recommendation to address the intent of CPC Section 4025.

### **Potential Impact of an Allocation Shift**

CPC Section 4025 states that the IWF “shall not be used to pay required county expenses of confining inmates in a local detention system, such as meals, clothing, housing, or medical services or expenses, except that inmate welfare funds may be used to augment those required county expenses as determined by the Sheriff.”

Sheriff management indicated that their required jail maintenance expenditures significantly exceed the annual IWF allocation amount. The Department also indicated that any decrease in the amount or percentage of IWF revenue spent on jail maintenance activities will require an equal increase to the Sheriff’s budget and the Department’s and County’s Net County Costs to achieve the same level of service. As a result, the Department may be supplanting jail maintenance expenditures with IWF revenues that should be funded through the Sheriff’s normal budgeting process.

The Department should improve their IWF expenditure controls to ensure that the IWF is not used to supplant required Department jail maintenance costs related to confining inmates to County jails as defined by CPC Section 4025. See Attachment II Issue 5 for additional information and a recommendation to improve the Sheriff’s IWF expenditure controls.

# LOS ANGELES COUNTY AUDITOR-CONTROLLER

**Peter Hughes**  
ASSISTANT AUDITOR-CONTROLLER

**Mike Pirolo**  
DIVISION CHIEF

## AUDIT DIVISION

Report #K18GK

### SHERIFF'S DEPARTMENT - INMATE WELFARE FUND FINANCIAL COMPARISON REVIEW

#### BACKGROUND

The Sheriff (Sheriff or Department) administers and oversees the Inmate Welfare Fund (IWF or Fund), which is primarily funded through commissions received from inmate commissary sales, telephone services, etc. As required by the California Penal Code (CPC) Section 4025, IWF monies are to be used for the benefit, education, and welfare of inmates confined within the jail and any funds not needed for the welfare of inmates may be used for jail maintenance expenditures. The Sheriff historically has allocated 51% of their annual IWF revenues to inmate programs and the remaining 49% to the maintenance of inmate jail facilities.

The Sheriff's Inmate Welfare Commission (IWC or Commission) provides oversight over the IWF program expenditures and the Sheriff's Facility Services Bureau (FSB or Bureau) administers and oversees all IWF jail maintenance/upgrade expenditures. We completed a multi-year revenue and expenditure comparison of the Inmate IWF and compared the Department's IWF expenditures with other local counties. We identified opportunities for improvement, as noted in the table below. Based on our review, we noted opportunities for improvements as noted in the table below.

#### TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION

	ISSUE	RECOMMENDATION
1	<p><b>Spending Plan</b> - The Sheriff needs to establish a process/control to ensure that the Department develops and maintains a multi-year spending plan to implement best practices and account for the IWF balance to ensure that the Department is effectively managing and maximizing the use of the IWF balance.</p> <p>We noted that the Sheriff annually budgets their IWF revenues and expenditures and maintains separate accounts for the portion of the Fund balance available for inmate programs and jail maintenance expenditures. However, we noted that the Department does not have a process to ensure that a multi-year spending plan for the IWF balance is developed, documented, and maintained to adequately plan for future Fund revenues, expenditures, and use of the IWF balance.</p> <p><b>Impact:</b> As of June 30, 2019, the Fund had a balance of approximately \$15.3 million. This weakness increases the risk that the Sheriff may not be maximizing the use of their IWF and that the Department is not adequately planning for future impacts to the Fund.</p>	<p><b>Priority 1</b> - Sheriff management establish a process and control to ensure that the Department develops and maintains a multi-year spending plan to implement best practices and account for the IWF balance.</p> <p><b>Department Response: Partially Agree</b> Implementation Date: June 25, 2021</p> <p>Sheriff's response (Attachment III) indicates that the Sheriff maintains a IWF multi-year spending plan as it relates to on-going contracts. The Department also maintains an annual spending plan for IWF projects.</p> <p><b>AUDITOR RESPONSE</b> While the Sheriff indicated that they maintain a multi-year spending plan for contracts, the Department does not maintain a multi-year spending plan for all other revenues, expenditures, and the fund balance to help ensure that they properly plan for both current and future financial changes. As a result, we continue to believe that the Department should implement our recommendation.</p>

**Priority Ranking:** Recommendations are ranked from Priority 1 to 3 based on the potential seriousness and likelihood of negative impact on the Agency's operations if corrective action is not taken.

<b>TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION</b>	
<b>ISSUE</b>	<b>RECOMMENDATION</b>
	<p><b>Extension Justification</b> Due to the impact of COVID-19, personnel curtailments, and budgetary restraints, Sheriff management indicated that their estimated implementation date exceeds the Auditor-Controller's (A-C) standard corrective action timeframe.</p>
<p><b>2</b> <b>Benchmark for Best Practices</b> - The Sheriff needs to strengthen their IWF monitoring practices by periodically benchmarking IWF practices with peer counties to identify, evaluate, and implement best practices where applicable.</p> <p>As mentioned, the Sheriff's IWC provides oversight of the Sheriff's IWF program funds and the Department's Facilities Services Bureau administers and manages IWF jail maintenance costs. However, the Sheriff does not periodically compare their IWF collection, allocation, funding usage, etc. with other local peer counties for best practices. For example, we noted that while the Sheriff allocates 51% of IWF revenues toward inmate programs, the three other counties we reviewed appeared to spend between 65% to 85% of their Fund revenue on inmate programs.</p> <p><b>Impact:</b> For FY 2018-19, the Sheriff's IWF expenditures totaled approximately \$31.2 million. This prevents management from evaluating expenditures compared to peer counties and identifying/implementing best practices. The Sheriff may also not be efficiently and effectively using their IWF.</p>	<p><b>Priority 2</b> - Sheriff management strengthen their <b>IWF monitoring practices by periodically benchmarking IWF practices with peer counties to identify, evaluate, and implement best practices where applicable.</b></p> <p><b>Department Response: Disagree</b> Implementation Date: No Date Provided.</p> <p>Sheriff's response (Attachment III) indicates that IWF commissary and vending machine contracts include language to ensure that the cost of items are commensurate with public costs and reviewed annually. In addition, the information used by the Auditor-Controller (A-C) to compare "peer counties" does not identify specific information that guarantees that they are comparing like items.</p> <p><b>AUDITOR RESPONSE</b> While Sheriff's management has concerns with our comparison data from other peer counties, our recommendation is focused on the Sheriff strengthening their monitoring practices by periodically benchmarking their IWF practices with peer counties and implementing best practices where applicable. As a result, we continue to believe that the Sheriff should implement our recommendation.</p>
<p><b>3</b> <b>Contract Re-evaluation</b> - The Sheriff needs to strengthen their IWF monitoring controls by periodically reviewing and evaluating the mark-up charged to inmates and their families under the commissary/vending machine and telephone contracts/amendments to ensure that profit margin for these good/services are fair and appropriate.</p> <p>We noted that the methodology for the mark-up percentages/amounts of fees charged to inmates for commissary/vending machine and telephone services has not changed significantly in several years. While</p>	<p><b>Priority 2</b> - Sheriff management strengthen their <b>IWF monitoring controls by periodically reviewing and evaluating the mark-up charged to inmates and their families under the commissary/vending machine and telephone contracts/amendments to ensure that profit margin for these good/services are fair and appropriate.</b></p> <p><b>Department Response: Disagree</b> Implementation Date: No Date Provided.</p>

**Priority Ranking:** Recommendations are ranked from Priority 1 to 3 based on the potential seriousness and likelihood of negative impact on the Agency's operations if corrective action is not taken.

<b>TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION</b>	
<b>ISSUE</b>	<b>RECOMMENDATION</b>
<p>maintaining the same fees/rates may be appropriate, we noted that the Sheriff does not periodically review and evaluate commissary/vending machine and the Sheriff does not periodically review the commissary, vending machine, and telephone contracts/amendments, the cost-benefit of the fees charged to inmates for these items/services, the planned usage of funds, and the potential impacts of these charges to inmates.</p> <p><b>Impact:</b> Prevents management from evaluating the potential impact of telephone usage and commissary item costs to inmates and their families.</p>	<p>Sheriff's response (Attachment III) indicates that Inmate Welfare Fund commissary and vending machine contracts include language to ensure that the cost of items are commensurate with public costs and reviewed annually. In addition, the information used by the A-C to compare "peer counties" does not identify specific information that guarantees that they are comparing like items.</p> <p><b>AUDITOR RESPONSE</b> While the Sheriff indicated that their commissary and vending machine contracts include language to ensure that cost of items are commensurate with public costs and reviewed annually, as mentioned, we noted that the mark-up percentages and amount of fees have not changed in several years and the Department does not periodically re-evaluate and document the methodology and potential impact of these fees to ensure that they are fair, appropriate, and consider the impact to inmates and their families. As a result, we continue to believe that the Sheriff should implement our recommendation.</p>
<p><b>4</b> <b>CPC Section 4025 Interpretation of Fund Allocations</b> - The Sheriff needs to work with County Counsel to obtain a legal opinion on the appropriate allocation of the IWF for inmate program and jail maintenance expenditures, as defined by CPC Section 4025 and ensure compliance with County Counsel's interpretation.</p> <p>The CPC requires that the IWF be used for the primary benefit, education, and welfare of inmates, and that "any funds not needed for the welfare of inmates may be expended for the maintenance of County jail facilities." We noted that the Sheriff's continued historical practice of allocating 51% of IWF revenues to inmate programs and the remaining 49% for jail maintenance costs may not be consistent and in compliance with the CPC.</p> <p><b>Impact:</b> For FY 2018-19, the Sheriff allocated The Sheriff may not be identifying additional inmate programs and other goods/services that provide direct benefits to inmates housed in the County's jail facilities. In addition, an increased risk that Sheriff may not be properly allocating the funds in accordance with the CPC.</p>	<p><b>Priority 2 - Sheriff management work with County Counsel to obtain a legal opinion on the appropriate allocation of the IWF for inmate program and jail maintenance expenditures, as defined by CPC Section 4025 and ensure compliance with County Counsel's interpretation.</b></p> <p><b>Department Response: Agree</b> Implementation Date: July 25, 2021</p> <p><b>Extension Justification</b> Due to the impact of COVID-19, personnel curtailments, and budgetary restraints, Sheriff management indicated that their estimated implementation date exceeds the A-C's standard corrective action timeframe.</p>

**Priority Ranking:** Recommendations are ranked from Priority 1 to 3 based on the potential seriousness and likelihood of negative impact on the Agency's operations if corrective action is not taken.

<b>TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION</b>	
<b>ISSUE</b>	<b>RECOMMENDATION</b>
<p><b>5 Jail Maintenance Expenditures</b> - The Sheriff needs to improve their IWF expenditure controls to ensure that the IWF is not used to supplant required Department jail maintenance costs related to confining inmates to County jails, as defined by CPC Section 4025.</p> <p>The Sheriff does not have a process/control to periodically review IWF expenditures to ensure that the Fund uses comply with the intent of the CPC. During our review, the Department indicated that any decrease in the amount or percentage of IWF revenue spent on jail maintenance activities will require an equal increase to the Sheriff's General Fund and the Department's and County's Net County Costs to achieve the same level of service. However, CPC Section 4025 states that the IWF "shall not be used to pay required county expenses of confining inmates in a local detention system, such as meals, clothing, housing, or medical services or expenses, except that inmate welfare funds may be used to augment those required county expenses as determined by the Sheriff."</p> <p><b>Impact:</b> The Sheriff's jail maintenance expenditures charged to the IWF may not comply with the CPC. For FY 2018-19, the Sheriff's IWF jail maintenance expenditures totaled \$11.8 million.</p>	<p><b>Priority 2</b> - Sheriff management improve their IWF expenditure controls to ensure that the IWF is not used to supplant required jail maintenance costs related to confining inmates to County jails, as defined by CPC Section 4025.</p> <p><b>Department Response: Agree</b> Implementation Date: July 25, 2021</p> <p><b>Extension Justification</b> Due to the impact of COVID-19, personnel curtailments, and budgetary restraints, Sheriff management indicated that their estimated implementation date exceeds the A-C's standard corrective action timeframe.</p>

We conducted our review in conformance with the International Standards for the Professional Practice of Internal Auditing. For more information on our auditing process, including recommendation priority rankings, the follow-up process, and management's responsibility for internal controls, visit [auditor.lacounty.gov/audit-process-information](http://auditor.lacounty.gov/audit-process-information).



# OFFICE OF THE SHERIFF

COUNTY OF LOS ANGELES

**HALL OF JUSTICE**

ALEX VILLANUEVA, SHERIFF



January 26, 2021

Arlene Barrera, Auditor-Controller  
Department of Auditor-Controller  
Kenneth Hahn Hall of Administration  
500 West Temple Street, Room 525  
Los Angeles, California 90012

Dear Ms. Barrera:

**LOS ANGELES COUNTY SHERIFF'S DEPARTMENT  
INMATE WELFARE FUND FINANCIAL COMPARISON REVIEW**

Attached is the Los Angeles County Sheriff's Department's (Department) Inmate Welfare Fund Financial Comparison Review.

The Department is in partial agreement with the report findings and will implement the report recommendations.

Should you have any questions, please, contact Assistant Division Director Glen Joe, Administrative Services Division, at (213) 229-3306.

Sincerely,

ALEX VILLANUEVA, SHERIFF

A handwritten signature in blue ink, appearing to read "Timothy K. Murakami".

TIMOTHY K. MURAKAMI  
UNDERSHERIFF

211 WEST TEMPLE STREET, LOS ANGELES, CALIFORNIA 90012

*A Tradition of Service*  
— Since 1850 —



LOS ANGELES COUNTY  
AUDITOR-CONTROLLER

<b>Peter Hughes</b> ASSISTANT AUDITOR-CONTROLLER	<b>Mike Pirola</b> DIVISION CHIEF
---	--------------------------------------

**AUDIT DIVISION**

*Report #K18GK*

SHERIFF'S DEPARTMENT - INMATE WELFARE FUND FINANCIAL COMPARISON REVIEW

BACKGROUND

The Sheriff (Sheriff or Department) administers and oversees the Inmate Welfare Fund (IWF or Fund), which is primarily funded through commissions received from inmate commissary sales, telephone services, etc. As required by the California Penal Code (CPC) Section 4025, IWF monies are to be used for the benefit, education, and welfare of inmates confined within the jail and any funds not needed for the welfare of inmates may be used for jail maintenance expenditures. The Sheriff historically has allocated 51% of their annual IWF revenues to Inmate programs and the remaining 49% to the maintenance of inmate jail facilities.

The Sheriff's Inmate Welfare Commission (IWC or Commission) provides oversight over the IWF program expenditures and the Sheriff's Facility Services Bureau (FSB or Bureau) administers and oversees all IWF jail maintenance/upgrade expenditures. We completed a multi-year revenue and expenditure comparison of the Inmate IWF and compared the Department's IWF expenditures with other local counties. We identified opportunities for improvement, as noted in the table below.

TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION

	ISSUE	RECOMMENDATION
1	<p><b>Spending Plan</b> - The Sheriff needs to establish a process/control to ensure that the Department develops and maintains a multi-year spending plan to implement best practices and account for the IWF balance to ensure that the Department is effectively managing and maximizing the use of the IWF balance.</p> <p>We noted that the Sheriff annually budgets their IWF revenues and expenditures and maintains separate accounts for the portion of the Fund balance available for inmate programs and jail maintenance expenditures. However, we noted that the Department does not have a process to ensure that a multi-year spending plan for the IWF balance is developed, documented, and maintained to adequately plan for future Fund revenues, expenditures, and use of the IWF balance.</p> <p><b>Impact:</b> As of June 30, 2019, the Fund had a balance of approximately \$15.3 million. This weakness increases the risk that the Sheriff may not be maximizing the use of their IWF and that the Department is not adequately planning for future impacts to the Fund.</p>	<p><b>Priority 1 - Sheriff management establish a process and control to ensure that the Department develops and maintains a multi-year spending plan to implement best practices and account for the IWF balance.</b></p> <p><b>Department Response: Partially Agree</b> Implementation Date: June 25, 2021</p> <p>The Inmate Welfare Fund maintains a multi-year spending plan as it relates to on-going contracts. It also maintains an annual spending plan for projects.</p> <p>Extension Justification: With the impact of COVID-19, personnel curtailments, and budgetary restraints, the Department is requesting an extension on the corrective action's implementation date as indicated.</p>

**LOS ANGELES COUNTY  
AUDITOR-CONTROLLER**

<p><b>2</b> <b>Benchmark for Best Practices</b> - The Sheriff needs to strengthen their IWF monitoring practices by periodically benchmarking IWF practices with peer counties to identify, evaluate, and implement best practices where applicable.</p> <p>As mentioned, the Sheriff's IWC provides oversight of the Sheriff's IWF program funds and the Department's Facilities Services Bureau administers and manages IWF jail maintenance costs. However, the Sheriff does not periodically compare their IWF collection, allocation, funding usage, etc. with other local peer counties for best practices. For example, we noted that while the Sheriff allocates 51% of IWF revenues toward inmate programs, the three other counties we reviewed appeared to spend between 65% to 85% of their Fund revenue on inmate programs.</p> <p><b>Impact:</b> For FY 2018-19, the Sheriff's IWF expenditures totaled approximately \$31.2 million. This prevents management from evaluating expenditures compared to peer counties and identifying/implementing best practices. The Sheriff may also not be efficiently and effectively using their IWF.</p>	<p><b>Priority 2</b> - Sheriff management strengthen their IWF monitoring practices by periodically benchmarking IWF practices with peer counties to identify, evaluate, and implement best practices where applicable.</p> <p><b>Department Response: Disagree</b> Implementation Date:</p> <p>Inmate Welfare Fund commissary and vending machine contracts include language to ensure that the cost of items are commensurate with public costs and reviewed annually. In addition, the information used by the Auditor-Controller to compare "peer counties" does not identify specific information that guarantees that they are comparing like items.</p>
<p><b>3</b> <b>Contract Re-evaluation</b> - The Sheriff needs to strengthen their IWF monitoring controls by periodically reviewing and evaluating the mark-up charged to inmates and their families under the commissary/vending machine and telephone contracts/amendments to ensure that profit margin for these good/services are fair and appropriate.</p> <p>We noted that the methodology for the mark-up percentages/amounts of fees charged to inmates for commissary/vending machine and telephone services has not changed significantly in several years. While maintaining the same fees/rates may be appropriate, we noted that the Sheriff does not periodically review and evaluate commissary/vending machine and the Sheriff does not periodically review the commissary, vending machine, and telephone contracts/amendments, the cost-benefit of the fees charged to inmates for these items/services, the planned usage of funds, and the potential impacts of these charges to inmates.</p> <p><b>Impact:</b> Prevents management from evaluating the potential impact of telephone usage and commissary item costs to inmates and their families.</p>	<p><b>Priority 2</b> - Sheriff management strengthen their IWF monitoring controls by periodically reviewing and evaluating the mark-up charged to inmates and their families under the commissary/vending machine and telephone contracts/amendments to ensure that profit margin for these good/services are fair and appropriate.</p> <p><b>Department Response: Disagree</b> Implementation Date:</p> <p>Inmate Welfare Fund commissary and vending machine contracts include language to ensure that the cost of items are commensurate with public costs and reviewed annually. In addition, the information used by the Auditor-Controller to compare "peer counties" does not identify specific information that guarantees that they are comparing like items.</p>
<p><b>4</b> <b>CPC Section 4025 Interpretation of Fund Allocations</b> - The Sheriff needs to work with County Counsel to obtain a legal opinion on the appropriate allocation of the IWF for inmate program and jail maintenance expenditures, as defined by CPC Section 4025 and ensure compliance with County Counsel's interpretation.</p>	<p><b>Priority 2</b> - Sheriff management work with County Counsel to obtain a legal opinion on the appropriate allocation of the IWF for inmate program and jail maintenance expenditures, as defined by CPC Section 4025 and ensure</p>

**LOS ANGELES COUNTY  
AUDITOR-CONTROLLER**

<p>The CPC requires that the IWF be used for the primary benefit, education, and welfare of inmates, and that "any funds not needed for the welfare of inmates may be expended for the maintenance of County jail facilities." We noted that the Sheriff's continued historical practice of allocating 51% of IWF revenues to inmate programs and the remaining 49% for mail maintenance costs may not be consistent and in compliance with the CPC.</p> <p><b>Impact:</b> For FY 2018-19, the Sheriff allocated The Sheriff may not be identifying additional inmate programs and other goods/services that provide direct benefits to inmates housed in the County's jail facilities. In addition, an increased risk that Sheriff may not be properly allocating the funds in accordance with the CPC.</p>	<p><b>compliance with County Counsel's interpretation.</b></p> <p><b>Department Response: Agree</b> Implementation Date: July 25, 2021</p> <p>The Inmate Welfare Fund has worked with County Counsel and obtained an opinion as to the appropriate allocation of the Inmate Welfare Fund Program and Facilities Maintenance expenditures.</p> <p>Extension Justification: With the impact of COVID-19, personnel curtailments, and budgetary restraints, the Department is requesting an extension on the corrective action's implementation date as indicated.</p>
<p><b>5 Jail Maintenance Expenditures</b> - The Sheriff needs to improve their IWF expenditure controls to ensure that the IWF is not used to supplant required Department jail maintenance costs related to confining inmates to County jails, as defined by CPC Section 4025.</p> <p>The Sheriff does not have a process/control to periodically review IWF expenditures to ensure that the Fund uses comply with the intent of the CPC. During our review, the Department indicated that any decrease in the amount or percentage of IWF revenue spent on jail maintenance activities will require an equal increase to the Sheriff's General Fund and the Department's and County's Net County Costs to achieve the same level of service. However, CPC Section 4025 states that the IWF "shall not be used to pay required county expenses of confining inmates in a local detention system, such as meals, clothing, housing, or medical services or expenses, except that inmate welfare funds may be used to augment those required county expenses as determined by the Sheriff."</p> <p><b>Impact:</b> The Sheriff's jail maintenance expenditures charged to the IWF may not comply with the CPC. For FY 2018-19, the Sheriff's IWF jail maintenance expenditures totaled \$11.8 million.</p>	<p><b>Priority 2 - Sheriff management improve their IWF expenditure controls to ensure that the IWF is not used to supplant required jail maintenance costs related to confining inmates to County jails, as defined by CPC Section 4025.</b></p> <p><b>Department Response: Agree</b> Implementation Date: July 25, 2021</p> <p>Expenditures are required to go through various levels of review prior to making purchases using hard copies and the electronic Purchasing and Accounting System.</p> <p>Extension Justification: With the impact of COVID-19, personnel curtailments, and budgetary restraints, the Department is requesting an extension on the corrective action's implementation date as indicated.</p>