STATE OF CALIFORNIA —DEPARTMENT OF CORRECTIONS AND REHABILITATION

ARNOLD SCHWARZENEGGER, GOVERNOR

OFFICE OF THE SECRETARY

P.O. Box 942883
Sacramento, CA 94283-0001

March 18, 2010

Ms. Ana J. Matosantos
Director
Department of Finance
915 L Street
Sacramento, CA 95814

RE: Review of the Systems of Internal Control

Dear Ms. Matosantos:

In accordance with the Financial Integrity and State Managers Accountability (FISMA) Act of 1983, Government Code Sections 13400 through 13407, the California Department of Corrections and Rehabilitation (CDCR) submits the enclosed report on the review of our systems of internal control for the biennial period ended December 31, 2009.

As statutorily required, CDCR is in compliance with Government Code Section 12439. CDCR meets and exceeds the FISMA requirements in continual internal audits and compliance reviews reaching most programs within the Department, including internal accounting and administrative controls. In addition, frequent and constant oversight is provided by several external audit agencies with corrective plans submitted and monitored. CDCR is committed to mitigating its risks and achieving the goals identified in this report.

Should you have any questions or concerns, please contact me at (916) 323-6001.

Sincerely,

MATTHEW L. CATE
Secretary

Enclosure

cc: Scott Reid, Office of Governor Arnold Schwarzenegger
Katarina Tarr, Joint Legislative Audit Committee
Margarita Fernandez, Bureau of State Audits
R. Fontaine, California State Library

bcc: Brett Morgan, Chief of Staff
Lee Seale, Deputy Chief of Staff
Mary Fernandez, Undersecretary, Administration
Lori Gillihan, Division of Support Services
Darby Kernan, Office of Legislation
Benjamin Rice, Office of Legal Affairs
Joe Panora, Enterprise Information Systems
Dave Lewis, Office of Fiscal Services
Tim Gilpin, Office of Accounting Services
Richard Krupp, Office of Audits and Compliance
Tim Adams, Office of Audits and Compliance
Linda Renzelman, Office of Audits and Compliance
Kim Holt, Office of Audits and Compliance
Linda Wong, Office of Audits and Compliance
Chron file

O:\OAC\Support Services\External Audits\DOF\FISMA\FISMA 2009\DOF FISMA Cover Letter 2009.docx

FINANCIAL INTEGRITY AND STATE MANAGERS ACCOUNTABILITY ACT REPORT FOR 2009

California Department of Corrections and Rehabilitation
Organization Code: 065

Introduction

In accordance with the Financial Integrity and State Managers Accountability Act (FISMA) of 1983, the California Department of Corrections and Rehabilitation (CDCR) submits this report on the review of our systems of internal control for the biennial period ended December 31, 2009.

Should you have any questions, please contact Richard Krupp, Assistant Secretary, Office of Audits and Compliance, telephone: (916) 255-2906, email address: Richard.Krupp@cdcr.ca.gov.

BACKGROUND

CDCR Mission

The mission of CDCR is to enhance public safety through safe and secure incarceration of offenders, effective parole supervision, and rehabilitative strategies to successfully reintegrate offenders into our communities. CDCR currently operates 33 adult correctional institutions, 6 juvenile facilities, 47 juvenile and adult conservation/fire camps, and 13 adult community correctional facilities in California housing approximately 168,000 adult offenders and approximately 1,600 juvenile offenders. In addition, CDCR manages 187 parole offices and sub-offices located throughout the state and oversees 6 out-of-state correctional facilities.

CDCR Goals

CDCR is currently in the process of developing a new Strategic Plan. The vision of this new plan is a safer California through correctional excellence by incorporating the following themes:

- To protect our communities.
- To model correctional leadership.
- To employ best practices in correctional custody, care, and rehabilitation.
- To achieve excellence in infrastructure and administration.

Critical Business Functions and Activities

- CDCR's Division of Adult Institutions receives and houses inmates convicted of felony crimes within the state. The Department is statutorily required to accept convicted felons and civilly committed non-felon narcotic addicts who have been sentenced to imprisonment in a state correctional facility. When an adult inmate arrives at a state prison, he/she is assigned a classification based on his/her committed offense. Each prison is designed to house different varieties of inmate offenders, from Level I inmates to Level IV inmates; the higher the level, the higher risk the inmate poses. In addition, selected prisons within the state are equipped with

security housing units, reception centers, and/or "condemned" units for those inmates on death row.

- CDCR's Division of Adult Parole Operations enhances community safety by providing a period of supervision following the convicted felon's release from state prison. The period immediately following is critical to the successful reintegration of the parolee back into society. Parole supervision's goal is to maintain an appropriate balance between controls and services to ensure both effective supervision and reintegration. Parole protects the public by providing controls and by holding parolees accountable for behavior that threatens public safety.

- CDCR's Division of Juvenile Justice's mission is to protect the public from criminal activity through training and treatment services provided to youthful offenders committed by the courts. In addition, the Division directs youthful offenders to participate in community and victim restoration and assists local justice agencies with efforts to control crime and delinquency. The objectives of the Juvenile Operations program are to provide treatment programs to assist juvenile offenders in developing the necessary skills to successfully reintegrate back into their communities.

- CDCR's Correctional Health Care Services provides dental and mental health care to the inmate population statewide consistent with adopted standards for quality and scope of services within a custodial environment. The program strives to achieve this mission by providing cost-effective, timely, and competent care.

- Under the purview of the Federal Receiver's office, medical health care is provided through three licensed hospitals and a skilled nursing facility for female inmates. The program also operates sixteen Correctional Treatment Centers. In addition, the Receiver's office manages eight HIV units operated at various institutions and a hospice care wing at California Medical Facility. The Receiver's mission is to provide patient-inmates timely access to safe, efficient medical care, and coordinate the delivery of medical care with mental health, dental and disability programs.

- In addition to the above programs, CDCR provides treatments critical to California's efforts to reduce the number of inmates who return to a life of crime. In 2007, the Department added "Rehabilitation" to its title to underscore the increased priority of inmate rehabilitative programs, including substance abuse treatment and recovery. The adult rehabilitation reform aims to reduce victimization in the communities, refocus programs through use of proven practices, and reunite offenders with their community with a job and support system.

VACANT POSITIONS

CDCR's Human Resources tracks and monitors the vacancies and assists programs with filling critical positions, so the Department will not lose these crucial positions under Government

Code 12439, Section 41, which states positions that are continuously vacant for six pay periods are to be abolished.

RISK ASSESSMENT

In this era of economic decline and limited resources, CDCR is faced with the challenge of housing, providing healthcare, and programming for an inmate population of approximately 168,000 inmates, and supervising an active parole population of approximately 109,450 parolees; all in accordance with various mandates imposed by state and federal law. For example, CDCR continues to work toward implementing Assembly Bill 900 (Solorio, 2007) by increasing prison capacity and implementing reforms to reduce recidivism, in order to align its programs with the needs of the population it incarcerates and supervises. Meanwhile, the CDCR Division of Juvenile Justice (DJJ) continues to implement the remedial plans approved by the court in the settlement of the lawsuit *Farrell v. Cate*. The remedial plans are intended to correct deficiencies in six areas, including education, sexual behavior treatment, health care, safety and welfare, youths with disabilities, and mental health. These remedial plans form the foundation for reforming California's approach toward treating and teaching youths to create a constructive life. This approach is aimed at preventing the recidivism that otherwise could extend into adult years. Finally, the Division of Adult Parole Operations is transforming its approach to parole supervision in the wake of Senate Bill 18 (Ducheny, 3rd Ex. Sess., 2009) and the Governor's unallocated reduction of $400 million in the 2009 Budget Act.

As CDCR meets these challenges, it also faces risks. CDCR's internal auditing unit, in consultation with CDCR's executive management, has identified the following risks. First, as the Bureau of State Audits (BSA) reported in its June 2009 Report of high-risk issues facing the State and Select State Agencies, CDCR is not currently measuring its operations against a formal strategic plan. To mitigate this risk, in 2008, CDCR's current Secretary directed CDCR to begin developing a new strategic plan to replace the one adopted in late 2005. The updated Strategic Plan will identify goals, strategies, and objectives to improve operations, and include implementation dates for each goal. The updated Strategic Plan will be finalized in March 2010.

Second, a continuing concern for CDCR is the lack of consistent leadership at the top and in its upper- and mid-level management. For example, a March 2009 audit review of CDCR showed that over 30 percent of its top headquarters' and warden positions were either vacant or filled in an acting capacity. CDCR's Secretary is aware of the organization's leadership issues. In his testimony to the Senate Rules Committee during his confirmation hearing, he noted there has been a leadership void caused by among other things, its revolving door at the top. Lack of stable leadership ties into a lack of accountability and remains a top priority to be addressed by the Department. CDCR is also keenly focused on succession planning with the aim of ensuring staff are prepared to step into positions of leadership by giving field staff and managers the tools they need to be successful.

Third, CDCR has multiple systems for storing and tracking data, and CDCR faces the challenge of integrating the many disparate systems it is currently operating. CDCR relies on paper files and more than 100 small, stand-alone applications, subsystems, and tools to support its offender management process. The Strategic Offender Management System (SOMS), which is in its early implementation stages, will mitigate this risk by integrating these systems. In April 2009, CDCR completed the vendor procurement stage and announced its intent to award the vendor contract. CDCR anticipates that it will complete implementation of SOMS in December 2012, with some business functionality available in mid 2010.

Additionally, CDCR's Business Information System (BIS) solution is an implementation of the *Systems, Applications and Products in Data Processing* (SAP) suite of enterprise business management software. BIS will streamline the administrative processes of CDCR, including financial, supply chain, and human resources management. BIS is an enterprise-wide system that replaces hundreds of standalone databases, legacy systems, and manual processes with an integrated, proven solution for achieving operational efficiencies. The objective of BIS is to provide CDCR with more efficient, automated business processes as well as real-time reporting allowing for improved management of CDCR's financial and human resources. BIS is currently being evaluated for its accuracy of output, with a goal of being able to accomplish its objective in mid 2010.

Implementing the BIS and SOMS applications statewide within a data warehouse environment will allow CDCR to use up-to-date statistical packages to analyze well defined data streams in real time. These systems will significantly improve access to information and the accuracy of cost assessments and program evaluations. Together, SOMS and BIS will allow CDCR to overcome the risk presented by its multiple systems of storing and tracking data.

Fourth, CDCR is facing a number of fiscal risks associated with several budget reductions. While CDCR is exploring all options to address our budgetary shortfalls within existing resources, CDCR will mitigate the risk of budget overruns by implementing BIS, which will allow more access to real time financial data. We have also added a goal to our strategic plan to implement a financial management strategy that will utilize BIS by mid 2010. This will include a robust centralized financial governance component to deal with financial issues and to implement departmental fiscal policy in an expedited manner.

Fifth, CDCR faces major challenges in carrying out its mission and meeting its legal obligations to provide constitutionally adequate shelter and living space including adequate treatment and office space, to support the health care professionals who provide care in CDCR institutions. These challenges are further complicated by an aging physical infrastructure and the uncertainties associated with extensive court monitoring and intervention. The Department currently conducts its operations in facilities totaling over 40 million square feet and comprising 27,000 acres of state-owned land. The majority of these facilities are more than 20 years old. Only 11 of the 33 adult facilities and 1 of the 6 juvenile facilities were constructed during the last 20 years. Many CDCR building systems and even the buildings themselves have reached their useful life.

Given the condition of its facilities, CDCR faces risks associated with predicting, assessing, and mitigating infrastructural shortfalls. As a result, CDCR must embark on a multi-pronged effort to address the multiple problems associated with this condition. There are also safety risks created for the inmates and the staff themselves as they manage in these densely populated facilities. Finally, there is the risk that the overstressed and outdated facilities will experience a catastrophic failure of all or a part of a facility, requiring emergency closures and population redirects that CDCR is unable to do given the extreme shortage of space. CDCR is developing and implementing several solutions to the risks associated with its aging, crowded physical infrastructure.

EVALUATION OF RISKS AND CONTROLS

Even as a large, complex agency with many unique programs, CDCR meets and exceeds the requirements of FISMA through internal audits and compliance reviews. In addition, several external audit agencies provide continuous oversight. In each case, CDCR implements corrective action plans which are then internally monitored. CDCR's Office of Audits and Compliance (OAC) works closely with each program to follow up on corrective action plans, and provides status updates to the external agencies. All internal audit reports can be viewed at the Reporting Transparency in Government website (http://www.reportingtransparency.ca.gov/). The website also includes links to all external audit reports conducted on CDCR programs and operations.

Internal Oversight

OAC is responsible for the review of departmental operations to ensure compliance with State and departmental policies, procedures, directives, regulations, and statutory requirements. The main objective is to enhance the effectiveness and accountability of departmental programs and operations by providing the secretary, executive staff, and field managers with information for effective planning and decision making. In addition, OAC is the primary conduit in all aspects of the external audit process, critical to the credibility of the Department and its mission.

OAC operations encompass a myriad of services. First, OAC performs an annual risk assessment and updates its audit plan accordingly to address areas of concern expressed by upper management. The objective of the audits and reviews performed by OAC is to evaluate the adequacy and effectiveness of the Department's internal controls, and determine if the controls are sufficient to detect and prevent errors and irregularities in a timely manner. After risks are identified and resources are weighed, OAC works with the Division of Adult Institutions and Division of Juvenile Justice to perform facility-wide Operational Peer Reviews, a rigorous process assessing and addressing deficiencies at the institution level. OAC also performs internal Program Audits, Contract and Fiscal Audits, Information Security Audits, and Education Program Reviews of adult facilities, juvenile facilities, headquarters and parole offices. In addition, OAC manages operational performance via the COMPSTAT (Comparative Statistics) process. OAC's services are dedicated to identify liability exposure, minimize costs, enhance the effectiveness and accountability of departmental programs and operations and further the public safety mission of the Department. Finally, OAC is the primary conduit in all aspects of the external audit process, critical to the

credibility of the Department and its mission. OAC's diligence has improved Department operations, collected millions of dollars through audits and gained recognition as a leader in Performance Measurement. OAC, rising to the challenge of the State's diminishing fiscal resources, has increased the Department's ability to reduce expenditures through compliance management and risk management efforts. Many aspects of CDCR operations are monitored for compliance.

External Oversight

The three primary external agencies responsible for CDCR oversight are the Bureau of State Audits (BSA), and the Office of the Inspector General (OIG), and the Department of Finance (DOF).

BSA is the State's independent external auditor, and provides independent, nonpartisan assessments of California government's financial and operational activities in accordance with Generally Accepted Government Auditing Standards. Over the years, the Bureau of State Audits has conducted many audits and reviews of CDCR programs and operations to identify deficiencies. Reports issued by BSA can be viewed at their website at www.bsa.ca.gov. Recently enacted section 8546.5 of the Government Code has authorized BSA to establish a high-risk audit program. This has resulted in BSA identifying CDCR as one of two high risk state agencies in the State of California. CDCR's high risk areas identified in BSA's inaugural report are overcrowding, the health care receivership, CDCR's recent reorganization, and inconsistent leadership.

The OIG is responsible for independent oversight of all aspects of CDCR. Established by the Legislature in 1994 to review the policies and procedures of the former Youth and Adult Correctional Agency in conducting audits and investigations, the OIG was significantly expanded in 1998 and 1999, and reports directly to the Governor. Assembly Bill 900 (the Public Safety and Offender Rehabilitation Services Act of 2007) created the California Rehabilitation Oversight Board within the Office of the Inspector General, to regularly examine the various mental health, substance abuse, educational, and employment programs for inmates and parolees operated by CDCR. Reports submitted to the Governor and the Legislature include findings on the effectiveness of treatment efforts, rehabilitation needs of offenders, gaps in offender rehabilitation services, and levels of offender participation and success in the programs. Recommendations are made to the Governor and the Legislature with respect to modifications, additions, and eliminations of offender rehabilitation and treatment programs. All OIG reports are available at www.oig.ca.gov.

DOF's Office of State Audits and Evaluations (OSAE) has general responsibility for the State's financial, performance, information technology, and compliance audits, as well as internal control reviews, consulting, quality assurance reviews, and budgetary reviews. They are also responsible for monitoring and coordinating the implementation of FISMA. To assist CDCR meet FISMA under the prior requirements, DOF conducted regular internal control reviews on the regional accounting offices and institutions. The FISMA requirements changed while DOF was in the process of conducting internal control reviews at CDCR's Central Coast Regional Accounting Office, Avenal State Prison, Correctional Training Facility, Pleasant Valley State Prison, and Salinas Valley State

Prison. Final reports were issued in December 2007 with corrective action plans due in January 2008.

In addition to the above stated oversight, CDCR's Inmate Welfare Fund (IWF) and Community Correctional Facility Administration have long standing interagency agreements to provide auditing services to conduct fiscal compliance and financial statement audits.

The California Prison Health Care Receivership Corporation was created to house the activities of the federal Receiver. The Receivership was established as a result of a 2001 class action law suit (Plata v. Schwarzenegger) brought against the State of California over the quality of medical care in the state's 33-prison system. The court found that the care was a violation of the Eighth Amendment of the U.S. Constitution, which forbids cruel and unusual punishment of the incarcerated. The Receiver's objective is to create a system where custody and health care staff together guarantee that access to care and quality of medical services in California prisons meet constitutional standards. More information about the California Prison Health Care Receivership can be found at: www.cprinc.org.

CONCLUSION

CDCR is committed to mitigating its risks and achieving the goals identified in this report. Through both internal and external oversight, and the upcoming deployment of its strategic plan, CDCR is confident it will succeed in these endeavors. While there is no state agency that is scrutinized more closely than CDCR, we welcome the scrutiny as an opportunity for further improvement. By overcoming the risks identified in this report we will ensure a safer California for all of us.