Arizona Department of Corrections, Rehabilitation and Reentry

Capital Projects Funding and Department Finances

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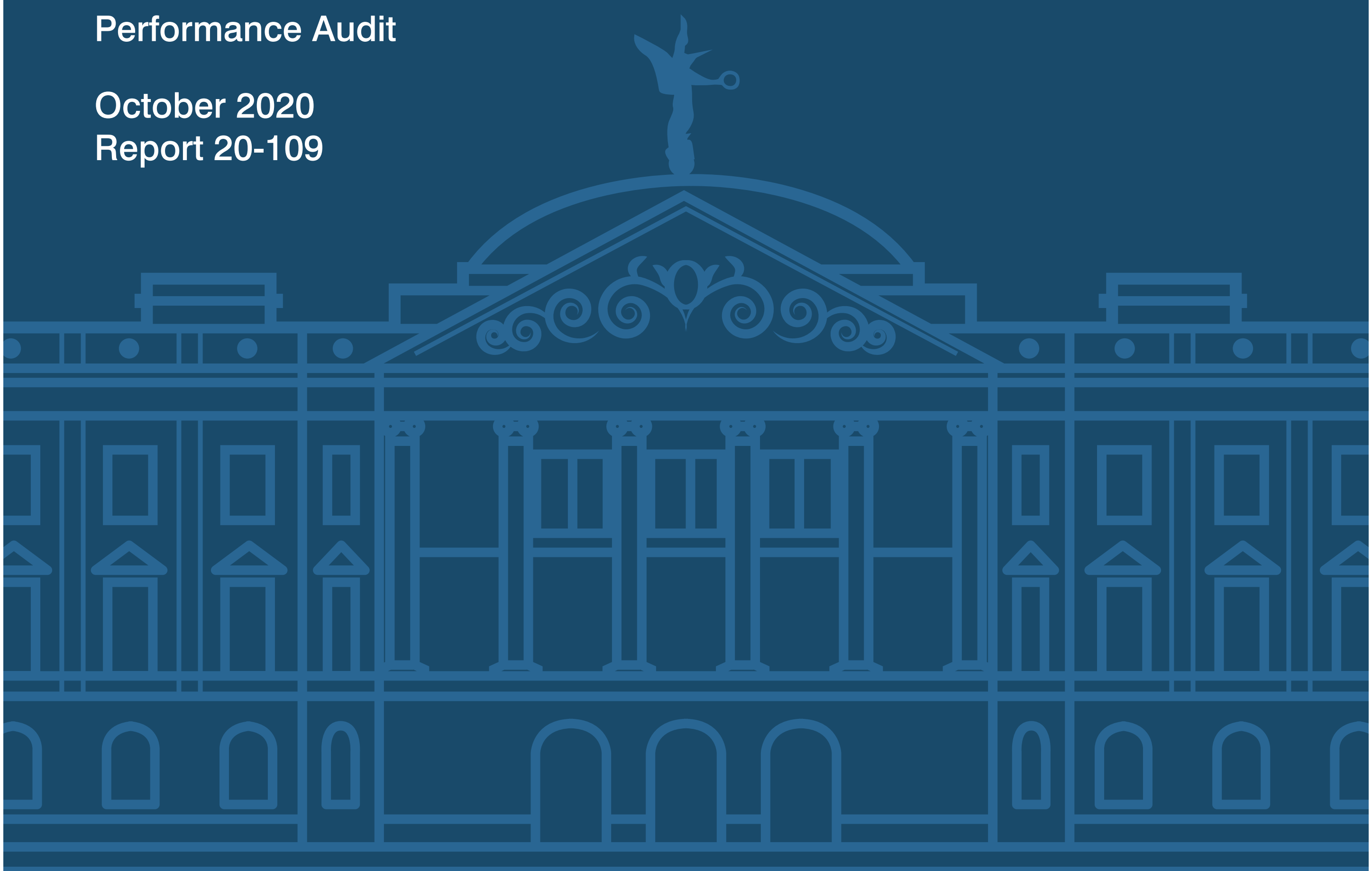
Performance Audit

October 2020
Report 20-109



A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General

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The Arizona Office of the Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

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October 9, 2020

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Mr. David Shinn, Director
Arizona Department of Corrections, Rehabilitation and Reentry

Transmitted herewith is the Auditor General's report, *A Performance Audit of the Arizona Department of Corrections, Rehabilitation and Reentry—Capital Projects Funding and Department Finances*. This report is in response to a September 19, 2018, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights to provide a quick summary for your convenience.

As outlined in its response, the Arizona Department of Corrections, Rehabilitation and Reentry agrees with the finding and plans to implement all the recommendations.

My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Lindsey Perry, CPA, CFE
Auditor General

Arizona Department of Corrections, Rehabilitation and Reentry

Capital Projects Funding and Department Finances

Department spending we reviewed was consistent with statutory and other requirements, but the Department has received a small percentage of its requested capital funding and has not addressed outstanding reconciliations of inmate account and bank statement balances.

Audit purpose

To review the Department's revenues and expenditures, capital projects funding, and management of inmate monies.

Key findings

- Department annually spends more than $1 billion—primarily State General Fund monies—to operate the State prison system. Its largest expenditures are for staffing; contracted services such as private prisons, inmate healthcare, and inmate food services; and other operating expenditures, including rent and utilities.
- Department expenditures and transfers we reviewed were for supported and allowable purposes.
- Department has received less than 5 percent of its requested capital funding, resulting in increased safety and security risks and at least $125 million in deferred maintenance costs. Arizona has provided less capital funding for its corrections department than other states we reviewed.
- The project to replace locks and make other upgrades at the Lewis and Yuma prison complexes has been revised, increasing its cost by almost $9 million and delaying its completion until August 2022.
- Although most deductions from inmate accounts we reviewed were accurate and supported, the Department has not reconciled inmate account and bank statement balances since November 2019 because of data issues related to its new inmate management system, which increases the risk of incorrect balances or unaccounted-for monies. In addition, the Department has not yet resolved approximately 480 reconciliation items dating from at least January 2015 through January 2019 with an absolute dollar value of approximately $992,400.

Key recommendations

The Department should:

- Continue to resolve its data issues and complete inmate account reconciliations for those months that have not been reconciled.
- Develop and implement a strategy and time frame to resolve the outstanding unreconciled items from previous reconciliations, working with the Arizona Department of Administration as needed.
- Retain all historical supporting documentation for each monthly reconciliation in accordance with its record retention policy.

See Performance Audit Report 20-109, October 2020, at www.azauditor.gov.

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INTRODUCTION

The Arizona Auditor General has released the first in a series of 3 performance audit reports on the Arizona Department of Corrections, Rehabilitation and Reentry (Department).[1] This report focuses on the Department's capital projects funding and finances. The second report will focus on inmate programs and their effect on recidivism, and the final report will provide responses to the statutory sunset factors. For this audit, we reviewed the Department's (1) revenues and expenditures for fiscal years 2016 through 2019, (2) requested and appropriated funding for capital and building renewal projects for fiscal years 2016 through 2021, and (3) management of inmate trust accounts. We also provide additional information about the Department and Arizona Correctional Industries in a question-and-answer format. This report primarily presents information that may be of specific legislative and public interest but has 3 recommendations for the Department in Chapter 2 (see pages 12 through 16).

Department overview

The Department operates 10 State prison complexes and contracts for 6 private or privately managed prisons located throughout the State to house Arizona inmates. The Department also oversees offenders conditionally released to the community through its community corrections program.[2,3] As of August 31, 2020, the Department was responsible for 39,153 inmates in Arizona's State and private prisons and 5,189 offenders on community supervision.

Department mission

To serve and protect the people of Arizona by securely incarcerating convicted felons, by providing structured programming designed to support inmate accountability and successful community reintegration, and by providing effective supervision for those offenders conditionally released from prison.

Source: Department website, retrieved May 2020.

Department spends more than $1 billion annually to operate State prison system

Department is primarily funded by State General Fund appropriations but also relies on other monies—Table 1 (see pages 2 through 3) provides a summary of Department revenues and expenditures for fiscal years 2016 through 2019. As shown in the table, the Department spent more than $1 billion annually to operate the State prison system in those years. State General Fund appropriations accounted for more than 90 percent of all Department revenues and expenditures. The Department also received and spent other revenues deposited in various Department funds established or authorized by statute. In total, the Department administers 21 funds, including both appropriated and nonappropriated funds, that have specific revenue streams and purposes for which they can be spent. Table 1 includes all Department funds except as noted in footnote 1 to the table. Financial information about individual Department funds is presented in Appendix A, pages a-1 through a-29.

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1 Prior to January 2020, the Department was called the Arizona Department of Corrections.

2 Inmates are conditionally released from prison through parole and community supervision. Parole is a period of conditional supervised release outside of prison before an entire prison term is completed. It is granted by the Arizona Board of Executive Clemency after an inmate has served a portion of his/her sentence and has applied for release on parole. Parole eligibility dates are calculated in accordance with the provisions of the committing offense and the laws in effect at the time the offense was committed. Only inmates who committed offenses before January 1, 1994, are eligible for parole. Community supervision is a portion of a felony sentence and is served consecutive to an inmate's period of imprisonment. The term of community supervision is a period equal to 1 day for every 7 days of the sentence and is imposed on the convicted person by the court at the time of sentencing. Thus, inmates can serve up to 15 percent of imposed sentences under community supervision. Community supervision replaced parole for offenses after January 1, 1994.

3 For more information on fees the Department charges to offenders on community supervision, see Chapter 3, pages 28 through 29.

Table 1
Schedule of revenues, expenditures, transfers, and changes in fund balances[1]
Fiscal years 2016 through 2019
(Unaudited)

	2016	2017	2018	2019
Revenues and transfers in[2]				
State General Fund appropriations	$1,031,411,815	$1,039,187,307	$1,065,472,013	$1,097,814,345
Luxury taxes[3]	36,552,094	35,192,470	35,812,005	36,052,001
Commissions[4]	10,409,122	14,560,794	12,608,049	15,075,039
Fines, forfeits, and penalties	13,760,205	13,372,976	12,521,064	12,296,822
Investment income	3,041,824	3,416,550	3,831,824	4,445,355
State Automation Projects Fund[5]	4,239,382	8,068,088	955,000	2,367,800
Rental income	2,617,334	2,275,498	2,411,926	2,246,354
Intergovernmental	1,463,624	2,170,887	1,794,205	1,993,414
Charges for goods and services	539,230	544,474	652,138	599,942
Other	2,281,076	1,627,350	2,468,123	1,264,924
Total revenues	1,106,315,706	1,120,416,394	1,138,526,347	1,174,155,996
Transfers from Arizona Correctional Industries Revolving Fund[6]	1,000,000	1,000,000	2,450,000	1,000,000
Total net revenues	**1,107,315,706**	**1,121,416,394**	**1,140,976,347**	**1,175,155,996**
Expenditures and transfers out				
Payroll and related benefits				
Payroll				
State prisons	366,752,633	365,815,282	364,363,324	364,246,421
Central office	29,808,945	30,974,665	32,066,682	32,754,024
Other[7]	13,421,834	13,775,050	14,647,165	13,773,352
Total payroll	409,983,412	410,564,997	411,077,171	410,773,797
Related benefits	210,938,771	203,369,546	221,715,666	230,625,639
Total payroll and related benefits	620,922,183	613,934,543	632,792,837	641,399,436
Professional and outside services				
Medical services[8]	146,810,713	146,972,789	149,635,194	170,870,441
Institutional care[9]	142,749,102	145,831,526	147,927,035	147,478,851
Other[10]	10,503,481	12,292,852	10,884,953	11,444,839
Total professional and outside services	300,063,296	305,097,167	308,447,182	329,794,131
Travel	437,375	532,275	796,750	931,294
Food and related expenditures[11]	41,837,160	40,705,018	40,255,130	40,713,345
Aid to individuals[12]	176,552	162,271	153,960	150,320
Other operating				
Rent	25,152,486	34,367,896	42,418,807	42,702,831
Utilities	27,466,942	27,284,651	27,020,243	27,523,934
Operating supplies	19,262,509	18,639,529	19,425,485	20,901,454
Information technology services	11,206,767	11,107,898	10,821,801	10,818,285
Payments to inmates	9,759,080	10,030,654	10,166,925	10,420,499
Other[13]	23,641,126	25,922,266	24,866,195	26,207,406
Total other operating	116,488,910	127,352,894	134,719,456	138,574,409
Capital and noncapital purchases				
Building improvements	5,282,292	4,743,705	8,430,829	7,289,489
Equipment	2,914,476	7,977,736	3,898,204	3,930,807
Adult Inmate Management System (AIMS) replacement[5]	4,371,826	4,593,609	2,052,781	1,930,329
Other	2,861,111	3,415,538	1,782,452	2,519,399
Total capital and noncapital purchases	15,429,705	20,730,588	16,164,266	15,670,024
Total expenditures	1,095,355,181	1,108,514,756	1,133,329,581	1,167,232,959
Transfers to the State General Fund[14]	8,572,000		1,000,000	2,525,200
Transfers to the State Automation Projects Fund[5]		7,445,300		
Transfers to the Arizona Health Care Cost Containment System (AHCCCS) for inmate medical services	1,913,803	1,488,127	1,595,287	1,195,541

Table 1 continued

	2016	2017	2018	2019
Transfers to the other agencies[15]	241,907	606,764	3,325,412	4,740,240
Total transfers out	10,727,710	9,540,191	5,920,699	8,460,981
Total expenditures and transfers out	**1,106,082,891**	**1,118,054,947**	**1,139,250,280**	**1,175,693,940**
Net change in fund balances	1,232,815	3,361,447	1,726,067	(537,944)
Fund balances, beginning of year	43,094,075	44,326,890	47,688,337	49,414,404
Fund balances, end of year	**$ 44,326,890**	**$ 47,688,337**	**$ 49,414,404**	**$ 48,876,460**

1 This table includes financial activity from all Department funds except for (1) the Prisoner Spendable Accounts Fund, also referred to as inmate trust accounts, because these monies are held for inmates and are not available for the Department's use (see Chapter 2, pages 12 through 16, for information on these accounts), and (2) the Arizona Correctional Industries (ACI) Revolving Fund because ACI is managed as a self-supporting operation (see Chapter 3, pages 20 through 24, for more information).

2 The table does not include monies the Department collected that were directly remitted to the State General Fund. Specifically, the Department received monies in fiscal years 2016, 2017, and 2019 from the U.S. Department of Justice for the State Criminal Alien Assistance Program (SCAAP) for a grant that provides federal payments to states and localities that incur correctional officer costs for incarcerating undocumented criminal aliens with at least 1 felony or 2 misdemeanor convictions for violations of state or local law, and who were incarcerated for at least 4 consecutive days. The Department remitted between $5.2 and $5.9 million of the monies received in fiscal years 2016, 2017, and 2019 directly to the State General Fund, and the remaining monies were deposited in the Department's Indirect Cost Recovery Fund (see Table 23, pages a-21 through a-22, footnote 1, for additional information). In addition, the Department collected between $3.9 million and $4.9 million annually in fiscal years 2016 through 2019 that were remitted directly to the State General Fund in accordance with statute. Most of these monies were collected from inmates for room and board as required by Arizona Revised Statutes (A.R.S.) §31-254(E)(4) and remitted to the State General Fund in accordance with A.R.S. §41-1674(B)(3).

3 Luxury taxes are a portion of taxes collected on alcohol and tobacco products and deposited into the Department's Corrections Fund and Revolving Fund (see pages a-4 through a-5 and a-15 through a-16, respectively, for additional information about these funds).

4 The Department received a portion of commissary revenues and commissions from the sale of phone minutes to inmates. The Department contracts with a vendor to operate prison commissaries that sell various items to inmates and receives 17 percent of all sales revenues. Similarly, the Department contracts with a vendor to provide phone services to inmates and receives 75.3 percent commission on all phone revenues. (See Chapter 3, pages 25 through 26, for more information about inmate phone services.)

5 The Department received monies from the State Automation Projects Fund to replace its Adult Inmate Management System (AIMS). Beginning in fiscal year 2018, the Department's General Fund also contributed monies to replace AIMS (see Table 11, pages a-2 through a-3). In fiscal year 2017, the Department was required to transfer $7 million to the State Automation Projects Fund in accordance with Laws 2016, Ch. 117, §158(B), for the AIMS replacement, and an additional $1 million from its ACI Revolving Fund. The AIMS replacement capital and noncapital expenditures are presented in the table; however, the project also incurred expenditures from other categories not specifically identified, such as payroll and related benefits, professional and outside services, and other operating expenditures. As of June 30, 2019, AIMS replacement expenditures were approximately $16.5 million for all expenditure categories.

6 Transfers from the ACI Revolving Fund were made to the Department's Building Renewal Fund in accordance with A.R.S. §41-1624(B) and Laws 2017, Ch. 305, §143.

7 Other payroll expenditures were payments to Department employees who work at various locations such as ACI, community corrections offices, parole offices, private prisons, and the Correctional Officer Training Academy.

8 Medical services expenditures were for inmate healthcare costs, including substance abuse and behavioral modification programs.

9 Most of the institutional care expenditures were payments to private prison providers.

10 Other professional and outside services expenditures include various external services such as inmate education and training, legal services, project consultants for the Governor's initiative to reduce waste and defects and the Department's AIMS replacement, drug testing, behavioral modification and substance abuse programs, recovery housing, electronic monitoring, and veterinary services.

11 Food and related expenditures were primarily contracted food services for inmates and offenders; however, it also includes about 1 percent for contracted food services for the correctional officer cadets at the Correctional Officer Training Academy.

12 Aid to individuals expenditures were for the costs of discharging inmates, such as paying for release clothing and gate fees and reimbursing private prison providers for similar costs.

13 Other operating expenditures comprised various expenditures, including insurance, repair and maintenance, officer uniforms, and inmate clothing costs.

14 Transfers to the State General Fund in accordance with Laws 2015, Ch. 8, §133(5) and Laws 2018, Ch. 276, §§139 and 140(5).

15 Transfers to other agencies include monies expended by the Arizona Department of Administration from the Corrections Fund (see page a-4 for additional information). Fiscal years 2018 and 2019 include transfers to the Arizona Department of Administration and Arizona Criminal Justice Commission (see Table 20, footnote 3, page a-18, and Table 21, footnote 3, page a-19, for additional information).

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for July 1, 2015 through December 31, 2019; State of Arizona *Annual Financial Report* for fiscal years 2016 through 2019; and Department-provided information.

Statute and State appropriations provide some flexibility in Department's use of funds—The Department has flexibility in determining which fund will pay for a particular expenditure when multiple funds may be used to do so. For example, the Department has used both Inmate Store Proceeds Fund monies and Special Services Fund monies to pay for inmate satellite television services.[4] Department staff reported that this flexibility is important for helping the Department manage monies from more restricted funds, maintain fund balances, and stay within its appropriations.

In addition, State laws have appropriated monies from at least 1 Department fund for purposes not specified in the fund's authorizing statute. Specifically, State laws have appropriated Corrections Fund monies—which are statutorily authorized for capital-related expenditures—to help pay for the Department's operating costs, and the Department has used these appropriated monies to pay for inmate food services.

Department's largest expenditures were for staffing, contracted services, and other operating expenditures—As shown in Figure 1 (see page 5), the following categories accounted for more than 98 percent of the Department's fiscal years 2016 through 2019 average expenditures:

- **Payroll and related benefits—**Almost 56 percent of the Department's expenditures were for employee payroll and related benefits, such as medical and dental insurance and retirement contributions. The Department had 9,556 appropriated full-time equivalent (FTE) positions in fiscal year 2019 and reported that 7,857 positions were filled as of the end of the fiscal year.

- **Professional and outside services and contracted food and related services—**Approximately 31 percent of the Department's expenditures were for (1) professional and outside services (primarily contracted services) and (2) contracted food and related services. For example, the Department contracts for 6 private or privately managed prisons, and many inmate services, including healthcare, food services, educational and vocational services, and counseling services. See Appendix B, pages b-1 through b-2, for examples of the Department's contracted services.

- **Other operating expenditures—**More than 11 percent of the Department's expenditures were for various expenditures, including rent, utilities, supplies, officer uniforms and inmate clothing, and inmate wages for prison jobs.

Department's total fund balances ranged from approximately $44.3 million to $49.4 million in the years we reviewed—As shown in Table 1 (see pages 2 through 3), the Department's end-of-year total fund balances ranged from approximately $44.3 million to $49.4 million for fiscal years 2016 through 2018 and were approximately $48.9 million as of the end of fiscal year 2019. The total fund balances comprise the individual fund balances in the Department's funds, which vary in amount. For example, as of the end of fiscal year 2019, the Arizona Correctional Industries Revolving Fund had a fund balance of approximately $14.5 million, the Special Services Fund had a fund balance of approximately $8.7 million, and the Community Corrections Enhancement Fund had a fund balance of $345,276.

The Department does not maintain a fund balance for its State General Fund appropriations as its authority to use unspent State General Fund appropriations lapses at the end of the fiscal year and cannot be carried forward to future years for other needs. However, the Department used nearly all its State General Fund appropriations in fiscal years 2016 through 2019, with between $1.8 million and $7.5 million remaining unspent each year.

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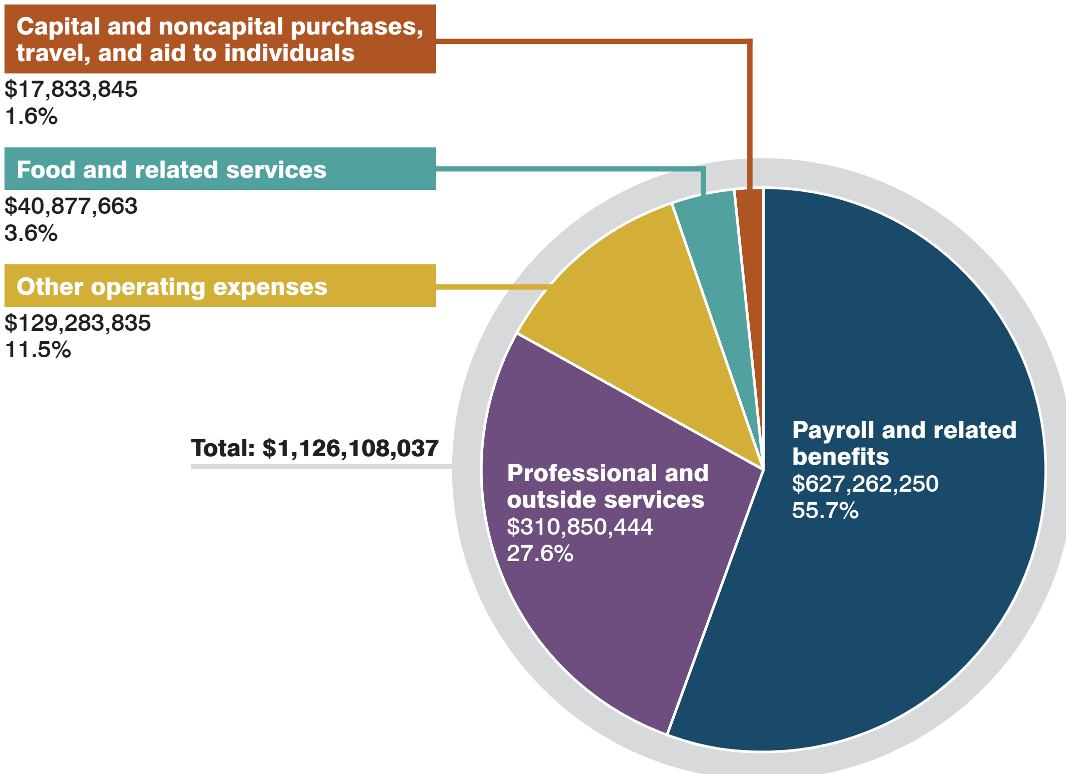
4 The Inmate Store Proceeds Fund is a nonappropriated fund that can be used for inmate activities and other purposes. The Special Services Fund is a nonappropriated fund that can be used for inmates' benefit, education, and welfare. See Appendix A, pages a-11 through a-12 and a-7 through a-8, for more information about these funds.

Figure 1
Department's largest expenditures by category
Fiscal years 2016 through 2019 (averages)
(Unaudited)



Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for July 1, 2015 through December 31, 2019; State of Arizona *Annual Financial Report* for fiscal years 2016 through 2019; and Department-provided information.

Department has received 2 to 4 percent of requested funding to address capital needs, resulting in increased safety and security risks and $125 million in deferred maintenance costs

Department's reported capital needs have exceeded its appropriated funding

The Department annually reported capital needs ranging from $164 million to $295 million for fiscal years 2016 through 2020 and was appropriated monies for 2 to 4 percent of its total capital funding requests.[5] The Department requests capital funding for various projects through an annual capital improvement process, as summarized in Figure 2 (see page 7). Specifically:

- The Department submits an annual CIP to the Arizona Department of Administration (ADOA) to request capital funding for a prioritized list of both capital and building renewal projects.[6] For example, some projects in the Department's fiscal year 2020 CIP included approximately $36.3 million for repairing and replacing locking and door control systems, $31.3 million for replacing fire alarm systems, and $6.2 million for upgrading security lighting and perimeter alarm systems at multiple prison complexes.
- ADOA reviews the CIPs for the State agencies it oversees, including the Department, and develops a separate CIP based on State agencies' submitted CIPs, which it submits to the Governor and Legislature for consideration. For each of fiscal

Key terms for this discussion

Capital funding—For the purposes of this chapter, capital funding refers to monies appropriated to pay for capital projects and building renewal projects through the State budget process. This definition excludes other types of capital purchases such as vehicles, furniture, and equipment.

Capital projects—Buildings, structures, facilities, and areas constructed for the use or benefit of the State. Capital projects generally involve new construction, such as new buildings, building additions, or infrastructure, as well as extensive remodeling.

Building renewal projects—Major activities that involve the repair or reworking of a building and its supporting infrastructure that will result in maintaining the building's expected useful life. Building renewal does not include new building additions, new infrastructure additions, landscaping and area beautification, routine preventive maintenance, or demolition and removal of a building.

Capital improvement plan (CIP)—A plan that assesses capital facility needs using a multi-year planning horizon.

Source: Auditor General staff review of A.R.S. §41-790 and Department Order 401.

5 In a 2011 performance audit (Report No. 11-07), we similarly reported that the Department received minimal capital funding in fiscal years 2008 through 2012. Specifically, it received 0 to 3.7 percent of its total capital funding requests in those fiscal years.

6 According to the Department, projects remain in the CIP from year to year until they are addressed or no longer applicable.

years 2016 through 2020, ADOA recommended that the Department receive between $29.7 million and $37.8 million for capital and building renewal projects.[7]

Figure 2
Annual process for requesting capital improvement funding

Source: Auditor General staff analysis of the annual capital improvement process.

- The Governor proposes capital funding recommendations to the Legislature in the executive budget. Capital appropriations are ultimately approved by the Legislature and Governor through the State budget process. Consistent with the Governor's executive budget recommendations, the Department was appropriated a fraction of its capital funding requests for fiscal years 2016 through 2020, and less than the amounts ADOA recommended. Specifically, the Department was appropriated monies for capital projects only in fiscal year 2018 ($1.45 million) and approximately $5.5 million to $6.9 million annually for building renewal projects. These monies were appropriated from the Department's Building Renewal Fund (see pages 9 through 10 for more information). Further, the building renewal appropriations were well below the amounts recommended by the State's statutory building renewal formula. ADOA reported that per the formula, the Department's building renewal needs ranged between approximately $17.6 million and $24.3 million for fiscal years 2016 through 2020.

Figure 3 (see page 8) compares the Department's capital funding requests, ADOA's and the Governor's recommended funding, and the amounts appropriated for fiscal years 2016 through 2020.

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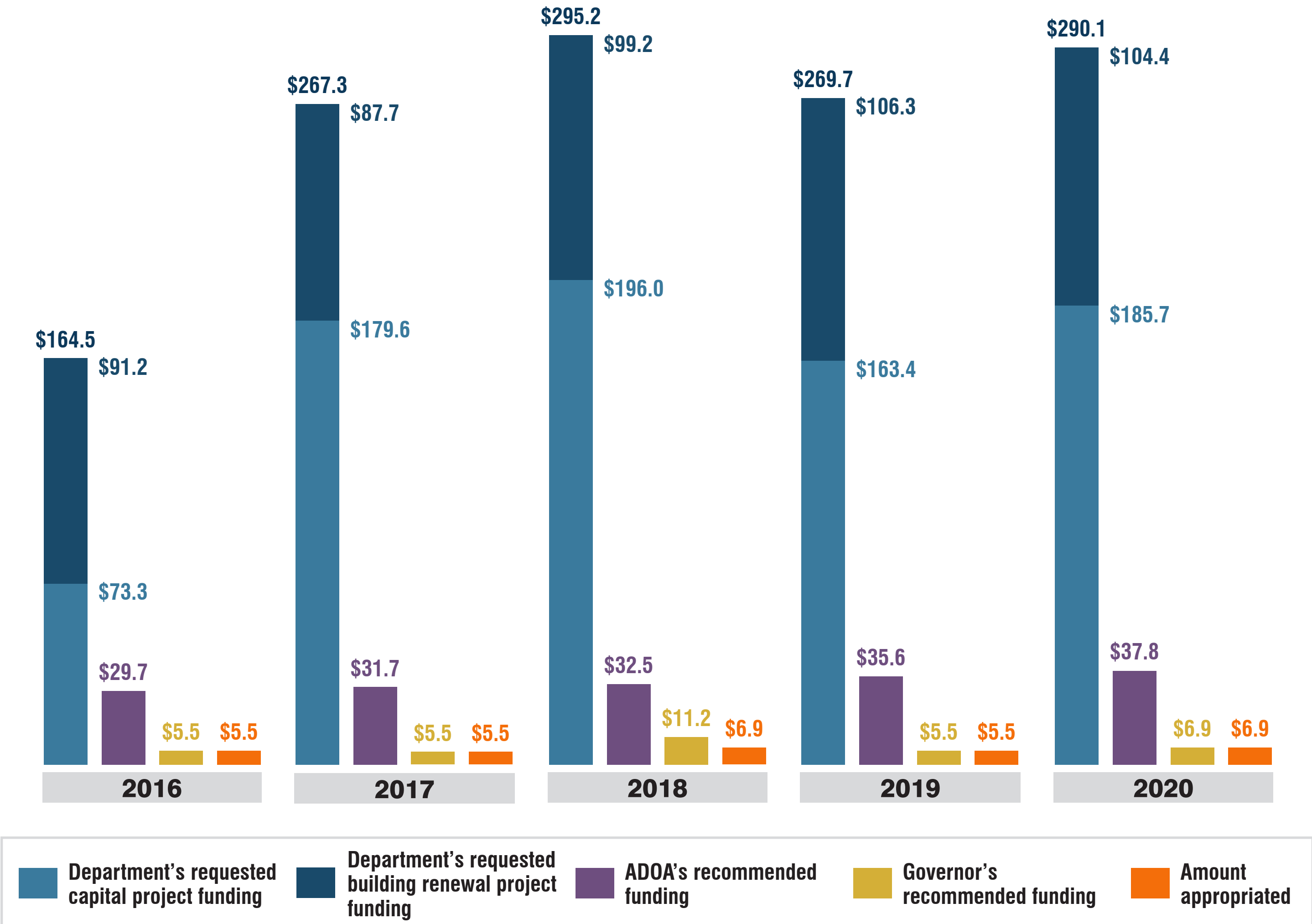
[7] According to ADOA management and ADOA's CIPs, ADOA prioritizes the requests from the agencies whose buildings it oversees—giving priority to fire and life safety projects—and uses the State's statutory building renewal formula to develop its recommended building renewal appropriations. Specifically, A.R.S. §41-793.01(A) establishes a uniform funding formula for ADOA's building renewal recommendations that considers the replacement value and the age of each building. According to ADOA, the State has not fully funded the building renewal formula in ADOA's building system since fiscal year 1988, although 99 percent of the formula was funded in fiscal year 1999.

Figure 3
Comparison of Department's capital funding requests, ADOA's and the Governor's recommended funding, and amounts appropriated
Fiscal years 2016 to 2020
(In millions)
(Unaudited)



Source: Auditor General staff analysis of the Department's and ADOA's CIPs, Governor's executive budgets for fiscal years 2016 through 2020, and appropriations bills for fiscal years 2016 through 2020.

Based on its fiscal year 2021 CIP, the Department proposed a 10-year plan to address its entire backlog of capital needs and requested a total of more than $400 million for more than 200 capital and building renewal projects. The Department estimated that it would need approximately $40 million per year for 10 years to address these needs. For fiscal year 2021, Laws 2020, Ch. 57, §1, appropriated approximately $5.5 million to the Department for building renewal projects only. In addition, Laws 2020, Ch. 57, §2, appropriated $30 million for facility upgrades at the Lewis and Yuma prison complexes, which are classified as building renewal projects (see Chapter 3, pages 19 through 20, for additional information about these upgrades).[8]

[8] To see how Arizona's capital funding compares to 4 other states we contacted, see Chapter 3, page 18.

Underfunding capital needs increases safety and security risks and has resulted in at least $125 million in deferred maintenance costs

Underfunding capital needs limits the Department's ability to address those needs, which increases prison safety and security risks to Department staff, inmates, and potentially the general public. For example, the Department's fiscal year 2021 CIP requests:

- Almost $69 million to replace or upgrade locks in multiple prison complexes. This included the Lewis prison complex, where, in April 2019, multiple media stories reported that nonfunctioning cell locks had contributed to assaults/injuries of inmates and Department staff. A report on the subsequent investigation of the situation indicated that repairing the locking systems at the Lewis prison complex was included in the Department's fiscal years 2011 through 2013 CIPs, but not in the Department's fiscal years 2014 through 2020 CIPs. However, the assaults at Lewis illustrate the importance of functional locks to safety and security.[9,10]

- Approximately $24 million to address security issues, such as replacing perimeter fencing and alarm systems and security lighting. The Department reported that fencing, alarm systems, and lighting at multiple prisons are obsolete, have reached the end of their service life, or are deteriorating badly due to age and weather, which increases security risks.

- Almost $98 million to upgrade fire systems in various prison complexes State-wide. Specifically, the Department reported that the fire alarm equipment at all 10 State prison complexes is outdated and obsolete, and most of the systems do not function.[11] The Department also reported that in the event of a fire, the nearest fire department can be up to an hour away, which is a life safety issue for Department staff and inmates, and that correctional officers must regularly inspect prison units for smoke or fire, which is a strain on an already stretched staff and not an efficient use of these resources.

Further, underfunding capital needs results in increased maintenance costs. ADOA reported that for fiscal years 2011 through 2020, the Department accumulated more than $125 million in deferred maintenance costs as a result of underfunding the building renewal formula.[12] According to CGL Companies—a U.S. criminal justice consulting firm that specializes in facility planning, design, maintenance, and operations—deferred maintenance has multiple potential impacts, including increased utility costs, increased future maintenance costs due to inflation, lost productivity and inefficient operation, noncompliance with building codes and regulatory standards, increased insurance and liability risks, overburdened maintenance staff, and excessive repair costs.[13]

Department has limited monies available to support larger capital funding appropriations

Department's Building Renewal Fund has insufficient monies to support larger appropriations— The State established the Department's Building Renewal Fund (BR Fund) in 2011 to appropriate building renewal monies directly to the Department.[14] As stated previously, the Department's building renewal monies have been appropriated from monies available in this fund. The BR Fund generally receives annual revenues of

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9 Following the media reports, the Governor requested 2 former Arizona Supreme Court justices to investigate and report on the lock situation at the Lewis prison complex. According to this report, there was internal disagreement at the Department as to whether the locks were malfunctioning or not working because of inmate tampering. For the full report, see Berch, R.W., & McGregor, R.V. (2019). *Report to the Governor: The effectiveness of locks at Lewis prison*. Retrieved 8/15/2019 from https://azgovernor.gov/sites/default/files/corrections_report.pdf.

10 See Chapter 3, pages 19 through 20, for information about facility upgrades at the Lewis and Yuma prison complexes.

11 See Chapter 3, pages 19 through 20, for information about facility upgrades at the Lewis and Yuma prison complexes.

12 Deferred maintenance is not only a Department issue but a State-wide issue as well. ADOA reported that as of October 2019, its building system has amassed $686 million (adjusted for inflation) of deferred capital maintenance as a result of underfunding the building renewal formula.

13 CGL Companies. (n.d.). *Deferred maintenance crisis—Predicting negative effects*. Retrieved 8/9/2019 from https://www.cglcompanies.com/knowledge-center/#whitepapers.

14 See Appendix A, pages a-13 through a-14, for more information about the BR Fund.

approximately $5.6 million, mostly as transfers from other Department funds (see textbox).

However, the fund balance is declining. In fiscal years 2016 through 2019, the BR Fund's annual expenditures generally exceeded its annual revenues. In addition, State laws required the Department to transfer $2 million in BR Fund monies to the State General Fund during this time period to help support and maintain State agencies. As a result, the fund balance decreased from approximately $5 million at the end of fiscal year 2016 to approximately $3 million at the end of fiscal year 2019. The Department projects that the fund balance will be less than $450,000 by the end of fiscal year 2021.

Statutorily required transfers to the BR Fund

Statute requires annual transfers of monies from the following Department funds:

- $2.5 million from the Corrections Fund
- $1 million from the Arizona Correctional Industries Revolving Fund
- $500,000 from the Inmate Store Proceeds Fund
- $500,000 from the Special Services Fund

Source: A.R.S. §§41-1604.02, 1604.03, 1624, and 1641.

Without additional revenues, the BR Fund may not have enough monies to support historical appropriation levels or any increased appropriations, such as if the State fully funded the statutory building renewal formula or the $40 million per year proposed in the Department's fiscal year 2021 CIP.

Limited monies are available in other Department funds for capital project needs—Monies in 7 other Department funds can be used for capital projects, and the State has appropriated monies from most of these funds for this purpose (see Appendix C, pages c-1 through c-4, for summary information about these 7 funds). For example, Laws 2017, Ch. 305, §143, transferred an additional $1.45 million from the Arizona Correctional Industries Revolving Fund to the BR Fund in fiscal year 2018, and Laws 2017, Ch. 306, §9, appropriated this amount from the BR Fund for replacement locking systems at prisons. Additionally, in accordance with an interagency agreement, the Department transferred a total of $10 million to ADOA from the Arizona Correctional Industries Revolving Fund and Inmate Store Proceeds Fund in fiscal year 2019 to pay for facility upgrades at the Lewis and Yuma prison complexes (see Chapter 3, pages 19 through 20, for more information about this project). Laws 2020, Ch. 57, §2, appropriated another $19 million in fiscal year 2021 from 6 of the 7 funds, as well as $11 million from the State General Fund, for this same project.

However, the monies available in these funds are limited because they are used for other purposes and their combined fund balance is declining. Specifically, the Department has used monies in these 7 funds consistent with their authorizing statutes or other State laws. For example, in fiscal years 2016 through 2019, the Department used monies from these funds to pay for private prisons, inmate healthcare, inmate food services, and other operating expenses. During these same years, State laws also directed the Department to transfer monies from the 7 funds to other State funds or external entities for various purposes. For example, State laws required the Department to periodically transfer monies from some of these funds to the State General Fund to support State agencies and to the State Automation Projects Fund to pay for replacing the Department's Adult Inmate Management System. If additional monies from these funds were used for capital needs, alternative funding sources would be needed to pay for the operating expenses they have been used for.

Further, the 7 funds' combined fund balance is declining. As of the end of fiscal year 2019, the funds had a combined fund balance of approximately $42 million, and the Department estimates that this combined fund balance will decline to less than $11.4 million by the end of fiscal year 2021. The majority of this expected fund balance decline results from the $19 million appropriation in fiscal year 2021 for the facility upgrades at the Lewis and Yuma prison complexes.

Department lacks authority to use its unspent State General Fund appropriations for capital projects—As discussed in the Introduction (see page 1), State General Fund appropriations are the Department's primary revenue source. However, by State law, the Department's authority to use any unspent State General Fund appropriations lapses at the end of the fiscal year and cannot be carried forward to future years for other needs.[15] The Department reported that although its unspent State General Fund appropriations could be used for capital or building renewal projects, by the time it knows what monies might be available, it is generally not able to spend the monies before its appropriation lapses because of the time needed to first obtain Joint Committee on Capital Review (JCCR) approval and procure contractor services.[16] The Department's combined total unspent State General Fund appropriations for fiscal years 2016 through 2019 was approximately $15.2 million.

[15] Per A.R.S. §§35-190 and 191, State General Fund appropriations end, and any remaining appropriated monies may only be used to pay obligations incurred during the applicable fiscal year or to fulfill contract terms, which requires ADOA approval if paid within 1 year and legislative approval if paid between 1 and 4 years after the end of the fiscal year.

[16] The JCCR is a legislative oversight body whose responsibilities include reviewing the scope, purpose, and cost of capital projects before releasing appropriations, and recommending capital appropriations to the Legislature. The capital outlay bill for each fiscal year indicates that the Department is to provide semi-annual reports to the JCCR on the status of all building renewal projects and expenditures.

Although most inmate trust account (ITA) deductions we reviewed were accurate and supported, Department has not reconciled ITA and bank statement balances since November 2019, which increases the risk of incorrect ITA balances or unaccounted-for monies

Department is custodian of inmate monies and manages them through ITAs

The Department is responsible for creating and maintaining financial accounts—called ITAs—for all inmates. The Department creates an ITA when an inmate is admitted to prison, and the ITA is assigned to the inmate for life.[17] As of June 30, 2019, the ITAs had a combined balance of more than $19.7 million for the approximately 42,300 inmates in prison at that time.

The Department's responsibilities for managing ITAs include depositing monies received on inmates' behalf and applying required deductions, as applicable. Specifically:

- **Deposits—**The Department collects and deposits monies into ITAs. These monies consist of various deposit types, including electronic funds transfers, such as contributions from inmates' families and friends; inmates' wages from employment/work opportunities; and business or government checks, such as checks for back wages or tax refunds. As shown in Table 2, page 13, the Department received and deposited more than $75 million into ITAs in fiscal year 2019.

- **Deductions—**Statutes, Department orders, and court orders require or authorize 32 various deductions from ITAs. Some of the deductions are automated and occur when money is deposited into an ITA, such as deductions from inmate wages for community transition services or court-ordered child support. Other deductions, such as utility fees and commissary purchases, would be charged either monthly or when an inmate makes a purchase.[18] The Department deducted approximately $81.2 million from ITAs in fiscal year 2019 (see Appendix D, pages d-1 through d-2, for more information regarding fiscal year 2019 ITA deductions).

[17] When an inmate is released, the Department pays the inmate any monies owed from the ITA. If an inmate is readmitted to the Department's custody, the inmate's ITA will be reactivated upon re-admittance.

[18] For more information about how the Department sets commissary prices and our test work regarding a sample of commissary items, see Chapter 3, page 29.

Table 2

Amounts deposited into ITAs and numbers of inmates receiving 1 or more deposits by deposit type

Fiscal year 2019

(Unaudited)

Deposit type	Amount deposited $	Number of inmates
Electronic funds transfers	$45,241,954	49,297
Inmate wages	24,803,431	50,930
Government/business checks	2,894,513	1,223
Other[1]	2,390,368	48,737
Total	**$75,330,266**	

[1] Includes error corrections and refunds.

Source: Auditor General staff analysis of ITA transactions for fiscal year 2019 obtained from Department records.

Most deductions we reviewed were accurate and supported

Our review of a stratified random sample of 179 transactions for 60 inmates across 16 different deduction types found that the Department accurately deducted the correct amount of money for 178 transactions.[19,20] In addition, the Department had supporting documentation or justification for charging an inmate for 177 of the 179 deductions.[21] For example, the Department had documentation to show that an inmate had a qualifying appliance when it charged a utility fee.[22]

Finally, for the almost 348,000 fiscal year 2019 deductions involving specified fee amounts (i.e., the $2.00 utility fee and $4.00 medical copay), the Department charged inmates the correct fee amount for all but 9 deductions.[23] Specifically, of the 261,331 utility deductions, 2 were higher than the $2.00 fee, and of the 86,468 medical copays, 7 were higher than the $4.00 fee. The Department corrected 3 of the errors in fiscal year 2019 and corrected the other 6 errors after we reported them to the Department.[24]

[19] We selected ITAs for 60 inmates and tested the first 3 transactions in which an applicable deduction occurred. One randomly selected ITA had only 2 transactions for a deduction type. In total, we reviewed 179 of the 4,833,774 total deductions in fiscal year 2019 across 16 of the 32 total deduction types.

[20] For 1 transaction involving a deduction of $5.04 for an inmate's donation to a fundraiser, we were not able to determine if this amount was correct because the Department was not able to provide the inmate's request for withdrawal. The Department maintained documentation for the other 11 transactions we reviewed where inmates donated to a fundraiser.

[21] As mentioned in footnote 20, the Department was unable to provide supporting documentation to show evidence that the inmate had requested 1 fundraiser donation. In addition, the Department was unable to provide supporting documentation to show evidence that an inmate should have been charged a $4 medical copay for a medical appointment on September 10, 2018.

[22] A.R.S. §31-239 requires the Department to establish a utility fee that does not exceed $2.00 per month and to only charge inmates who have a qualifying appliance, such as a television or blow dryer.

[23] For more information about how Arizona's utility fee and medical copay compare to 4 other states we contacted, see Chapter 3, pages 26 through 28.

[24] All 9 errors we found were caused by human error, such as typing in the wrong deduction code or other similar mistakes. In addition to correcting the errors, the Department reported that it provided additional training to staff and enhanced its staff supervision.

Department has not reconciled ITA and bank statement balances since November 2019, which increases the risk of incorrect ITA balances or unaccounted-for monies

Although the Department performs various weekly and monthly reconciliations of ITA transactions, it has not complied with State requirements for reconciling ITA accounting records to bank statement balances. This noncompliance increases the risk of undetected errors, fraud, theft, or loss, which could affect the amount of monies available for inmates to spend or that are paid to them when released from prison. Specifically, we identified the following 3 issues:

- **Department has not reconciled ITA accounting records to bank statements since November 2019—**The Department reported that it has not completed monthly reconciliations of overall ITA balances to bank statement balances since November 2019 after transitioning to its new inmate management system. According to the Department, it has not completed these reconciliations because of issues related to data converted from the prior inmate management system to its new inmate management system. Specifically, the Department reported that reconciled transactions in the prior system were inaccurately converted to unreconciled transactions in the new system, thus affecting the Department's ability to complete new reconciliations until it addresses the inaccurate data. However, State policy requires monthly reconciliations of accounting records to bank balances, and this reconciliation is an important financial control to help protect inmate monies. Not performing this monthly reconciliation can increase the risk of undetected errors, fraud, theft, or loss related to inmate monies. As of August 2020, the Department reported that it was in the process of cleaning up the inaccurately converted data in order to complete the outstanding and future monthly reconciliations. The Department also reported it was performing partial reconciliations. For example, the Department has compared some cleared payments and deposits from its ITA bank statements to its ITA financial records. In addition, the Department's Chief Financial Officer reported that she performs some high-level reviews, such as comparing payroll information to inmate wage deposits in ITAs, although she does not document these reviews.

- **Department has not timely resolved reconciliation items—**State policy requires that anomalies, deficiencies, imbalances, and errors detected through reconciliations should be resolved generally within 30 days. However, as of the November 2019 reconciliation, the Department had listed approximately 480 items dating from at least January 2015 through January 2019 that it had yet to reconcile. This includes unreconciled items with both positive and negative dollar values—ranging from approximately $(67,700) to $54,100—and a total absolute dollar value of approximately $992,400.[25] According to Department staff, these items were not timely reconciled because of staff turnover and the loss of the staff position dedicated to performing the reconciliation. The Department reported that it plans to research and resolve the unreconciled items on this list, if possible, but that doing so may require extensive research and has been a lower priority compared to other responsibilities, such as implementing the new inmate management system and cleaning up the converted data.

Key terms for this discussion

Positive dollar values—Represent adjustments for unreconciled items where the bank statement balance is less than the ITA accounting records.

Negative dollar values—Represent adjustments for unreconciled items where the bank statement balance is greater than the ITA accounting records.

Absolute dollar value—The sum of the dollar values irrespective of whether they are positive or negative.

Net dollar value—The sum of the positive and negative dollar values.

Source: Auditor General staff review of the November 2019 ITA reconciliation.

[25] The total net dollar value of these unreconciled items is approximately $130,900.

However, the Department may lack or not be able to locate the documentation needed to research and resolve all the unreconciled items. For example, we requested documentation for a judgmental sample of 14 unreconciled items with a total absolute dollar value of approximately $368,100.[26] The Department located and provided documentation for 4 of these items but could not readily locate documentation for the remaining 10 items. For the 4 items for which it located documentation, the Department determined that 3 items related to check payments the Department made on inmates' behalf but that the recipients did not cash and 1 item related to a check that was improperly deposited into an ITA. The Department reported that additional research would be needed to fully resolve these 4 items. This additional research and the documentation the Department provided should allow for this resolution, and the resolution should not affect individual inmate account balances. The Department reported that additional research was needed to locate documentation and identify the issues for and resolve the other 10 items, but that it may not be able to resolve the 6 oldest items, which date back to at least 2015, because the Department has very limited information about them to inform its research, such as the month/year and dollar value.[27] The Department has limited information for at least 64 of the approximately 480 unreconciled items—with a total absolute dollar value of approximately $315,400— which may make them difficult for the Department to research and resolve.[28] Additionally, the Department's records retention policy—which requires the Department to retain ITA records for 5 years—could affect efforts to research and reconcile the older items if the Department followed its policy and no longer possesses the records.

State policy does not provide guidance on how to address unreconcilable items, which illustrates the importance of timely resolving them. Additionally, by not fully resolving these unreconciled items, individual ITA balances may be understated or overstated, such as if monies are missing or deposits were incorrectly posted to an inmate's account. Unreconciled items can also be an indicator of past fraud, theft, or loss, particularly if the documentation needed to reconcile the items cannot be located or has not been retained.

- **Department has not retained some historical information used for prior reconciliations—**According to State policy, agencies should retain documentation that supports their reconciliations in accordance with their record retention policies, and the Department has a 5-year record retention policy for ITA records. As part of the monthly reconciliation process, the Department used spreadsheets to reconcile outstanding deposits. However, the Department continuously updated these spreadsheets without saving historical versions to maintain supporting documentation for prior reconciliations, which does not comply with its record retention policy. Although reconciliations we reviewed received supervisory review and approval, without maintaining historical versions of the spreadsheets, the accuracy of prior reconciliations cannot be verified without recreating the spreadsheets. If errors occurred in prior reconciliations, they could have contributed to the unreconciled items discussed previously and would make resolving the items difficult.

Recommendations

To ensure compliance with State policy, the Department should:

1. Continue to resolve its data conversion issues and complete the reconciliations for those months that have not been fully reconciled.

2. Develop and implement a strategy and time frame to resolve the outstanding unreconciled items from previous reconciliations and resolve them in accordance with this strategy and time frame. The Department should work with ADOA, as needed, to determine how to address unreconcilable items. Going forward, the Department should ensure that it resolves anomalies, deficiencies, imbalances, and errors detected through reconciliations generally within 30 days.

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[26] We selected 8 items with the largest absolute dollar value and 6 items with the oldest dates. The total net dollar value of these 14 items is approximately $65,200.

[27] The absolute dollar value of these 10 unreconciled items is approximately $185,500, with the 6 oldest items accounting for approximately $7,800 of this amount.

[28] The total net dollar value of the 64 items is approximately $(70,600).

3. Retain all historical supporting documentation for each monthly reconciliation in accordance with its record retention policy.

Department response: As outlined in its **response**, the Department agrees with the finding and will implement the recommendations.

CHAPTER 3

Questions and answers

Table of contents

Question 1: Has the Department expended monies only for allowable purposes?

Department expenditures and transfers we reviewed were supported and allowable. Specifically, our high-level review of the Department's fiscal year 2019 expenditures and transfers found that the Department's use of its funds' monies appeared consistent with their statutory purposes, other legal requirements, or allowable uses of State appropriations. Our more detailed review of 88 judgmentally selected expenditures from (1) various expenditure categories, including payroll, professional and outside services, travel, food, capital and noncapital equipment, and other operating expenses, and (2) purchasing card (p-card) and central travel account (CTA) transactions found they were properly reviewed, supported, and approved, and were generally allowable expenditures from the funds to which they were charged.[29] In addition, the Department's financial controls over expenditures—such as policies and procedures for obtaining supporting documentation, conducting supervisory review, and

[29] We identified some p-card and CTA expenditures that were allowed but misclassified in the State's accounting system. Specifically, for the 7 CTA expenditures tested, the expenditures were misclassified as other operating rather than travel. Similarly, for 1 p-card transaction, an expenditure at a retail store was misclassified as travel rather than other operating. In addition, we identified 1 p-card expenditure of $200 that was erroneously charged to an unallowed fund. However, the Department corrected the errors to address these issues.

segregating duties—were consistent with required State practices. See Appendix E, pages e-1 to e-2, for more information about our methods for these reviews.

Question 2: How does Arizona's capital funding for the Department compare to other states?

The 4 other states we contacted provide more capital funding for their corrections departments than Arizona. As shown in Table 3, Ohio, Texas, Virginia, and Washington each provided more capital funding, in terms of both actual dollars and per capita spending based on state population, than Arizona in fiscal years 2016 through 2020.[30]

Table 3

Arizona's corrections capital funding compared to 4 other states, in total dollars and dollars per capita based on state population[1]

Fiscal years 2016 to 2020

(Unaudited)

	2016 Total/per capita	2017 Total/per capita	2018 Total/per capita	2019 Total/per capita	2020 Total/per capita
Arizona	$5,464,300/ $0.80	$5,464,300/ $0.79	$6,914,300/ $0.98	$5,464,300/ $0.76	$6,864,300/ $0.94
Ohio[2]	$65,000,000/ $5.59	$75,425,784/ $6.48	$75,425,784/ $6.47	$110,012,037/ $9.42	$110,012,037/ $9.41
Texas	$67,286,698/ $2.45	$57,329,753/ $2.05	$68,520,668/ $2.42	$29,629,114/ $1.03	$37,139,333/ $1.28
Virginia	$49,769,155/ $5.95	$12,308,371/ $1.46	$21,289,681/ $2.52	$28,786,472/ $3.39	$26,242,472/ $3.07
Washington[3]	$18,435,000/ $2.57	$18,435,000/ $2.53	$24,479,000/ $3.30	$24,479,000/ $3.25	$31,699,500/ $4.16

1 The per capita amounts are based on each state's census estimates for fiscal years 2016 through 2020 retrieved on 4/13/2020 from https://www.census.gov/newsroom/press-kits/2019/national-state-estimates.html.

2 Ohio appropriates capital funding every 2 years. For example, for fiscal years 2015-2016, the total appropriation is $130,000,000. For this table, the total appropriation is divided by 2 to arrive at the amount appropriated for each year in the 2-year cycle.

3 Washington appropriates capital funding every 2 years. For example, for fiscal years 2020 and 2021, the total appropriation is $63,399,000. For this table, the total appropriation is divided by 2 to arrive at the amount appropriated for each year in the 2-year cycle.

Source: Auditor General staff analysis of the states' budget bills and related documentation and interviews with other states' corrections and budget personnel, and annual population estimates for fiscal years 2016 through 2020 retrieved on 4/13/2020 from https://www.census.gov/newsroom/press-kits/2019/national-state-estimates.html.

30 We selected Ohio, Texas, Virginia, and Washington for comparison based on several factors (both for similarities and differences), including overall prison population, prison population per 100,000 state residents, state spending on corrections agency, and regional location.

Question 3: What is the status of the Department fixing the nonfunctioning locks at the Lewis prison complex?

As of June 2020, the Department was in the process of installing new cell doors at the Lewis prison complex. In June 2019, the Department requested and was granted JCCR's approval to use $17.7 million in nonappropriated Department funds to begin a 3-phase project to replace locking, fire, and evaporative cooler systems at the Lewis and Yuma prison complexes. Phase I includes replacing locking and fire systems at the Lewis prison complex; phase II includes replacing evaporative cooling systems at the Lewis prison complex; and phase III includes replacing locking, fire, and evaporative cooling systems at the Yuma prison complex. As discussed in Table 4, in April 2020, the Department proposed to change the original scope of the project. Specifically, the changes include (1) installing swinging doors instead of electronic sliding doors (see Figure 4, page 20), (2) replacing the evaporative coolers with air-conditioning units instead of new evaporative coolers at Lewis and Yuma, and (3) making additional facility upgrades, such as replacing porcelain toilets with stainless steel toilets and upgrading light fixtures. The Department estimates that using swinging doors instead of sliding doors will save approximately $20 million, which will help pay for phase II and the additional facility upgrades. Overall, the proposed changes would increase the total project cost from $51.4 million to $60 million and extend the completion date from May 2021 to August 2022. For fiscal year 2021, the Department was appropriated $30 million for the project.

Table 4
Change of scope to the facility upgrades project at the Lewis and Yuma prison complexes As of April 2020

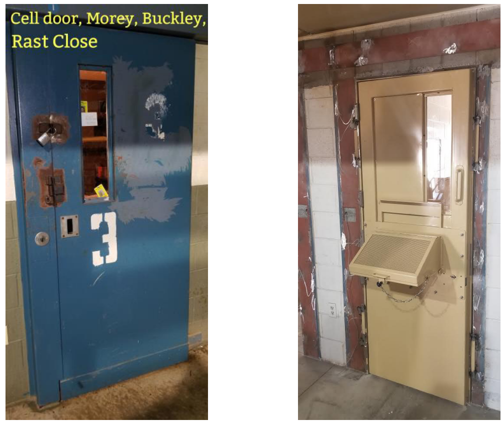
Project scope	Original project cost	Revised project cost
Phase I—Replacing locking and fire systems at the Lewis prison complex. The revised scope will install a less expensive locking system that uses a simpler swing door system, which requires less maintenance and fewer moving parts. The original proposed electronic sliding doors cost $16,400 per door. The Department estimates the new locking system will cost $2,741 per door. Also, the Department plans to convert the existing sliding doors to swinging doors and modify the doors to include a food trap/cuff port.[1]	$25,890,000	$5,706,700
Phase II—Installing air-conditioning units at the Lewis prison complex. The revised scope will replace the existing evaporative coolers with air-conditioning units instead of new evaporative coolers. The Department prefers to install air-conditioning units because they do not introduce added moisture into the buildings, thus increasing facility longevity, and providing more reasonable temperatures, which will improve staff morale and inmate behavior.	11,610,000	26,730,700
Phase III—Replacing locking and fire systems and installing air-conditioning units at the Yuma prison complex.	13,900,000	14,736,600
Other work—Replacing porcelain sinks and toilets with stainless steel ones and upgrading cell lighting. The Department believes these new fixtures are safer and less prone to tampering.	N/A	3,300,000
Additional costs—Costs incurred from the original scope that carry forward (i.e., originally purchased locks that will be repurposed and potential cancellation penalties).	N/A	9,554,500
Total Project Costs	**$51,400,000**	**$60,028,500**

[1] According to the Department, a food port is an opening in the cell door through which items such as food, books, and clothing are given to the inmate. A handcuff (or cuff) port is an opening through which inmates can be handcuffed before opening the cell door. The Department reported that the swinging doors will have a food port that can double as a cuff port.

Source: Auditor General staff review of April 29, 2020, JCCR meeting and agenda/minutes and Department-provided information.

Figure 4
Department's old sliding door and new swinging door

Sliding cell door | Swinging cell door



Source: Photos courtesy of the Department.

Question 4: What is Arizona Correctional Industries (ACI)?

ACI is a self-funded program that provides inmates with training and work experience to help prepare them for successful reentry and employment after release. ACI manages 2 types of inmate work programs:

- **Owned and operated enterprises—**ACI owns and operates businesses that use inmate labor to manufacture products and provide services. In fiscal year 2019, ACI operated 24 enterprises in various industries, including a bakery that sells baked goods to prisons and jails across the State, license plate manufacturing, and a fish farm that raises tilapia for local markets.[31] According to ACI-provided data, an average of 744 inmates across 8 prison complexes labored in ACI enterprises in fiscal year 2019. Per Department Order 903, inmates who work in an ACI-owned and operated enterprise make between $0.20 to $0.80 per hour.[32,33]

- **Labor partners—**ACI contracts with private businesses and government agencies for inmate labor (see page 23 for more information about how labor contracts are developed). In fiscal year 2019, ACI managed inmate labor contracts with 33 labor partners, such as Hickman's Egg Ranch and Taylor Farms.[34] According to ACI-provided data, an average of 1,081 inmates from 11 different prison complexes provided labor for ACI labor partners during fiscal year 2019. A.R.S. §31-254(A) requires inmates whose labor is connected to an ACI contract with a private person, firm, corporation, or association to be compensated at a minimum of $2.00 per hour. For the 4 ACI contracts we reviewed, inmates earned between $4.25 and $5.25 per hour and received overtime compensation at 1.5 times their normal wage for any overtime hours worked.[35,36]

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31 According to ACI staff, ACI's main considerations in deciding what types of businesses to operate include whether inmates are available, whether the Department would approve the business, whether there is demand for the product or service, and whether ACI can provide the product or service at a competitive price and generate a profit.

32 Per A.R.S. §31-254(A), inmate compensation shall be in accordance with a graduated schedule based on the quantity and quality of work performed and skill required for its performance but shall not exceed $1.50 per hour.

33 See Chapter 3, pages 24 through 25, for more information about Arizona's inmate wages and how they compare to other states' inmate wages.

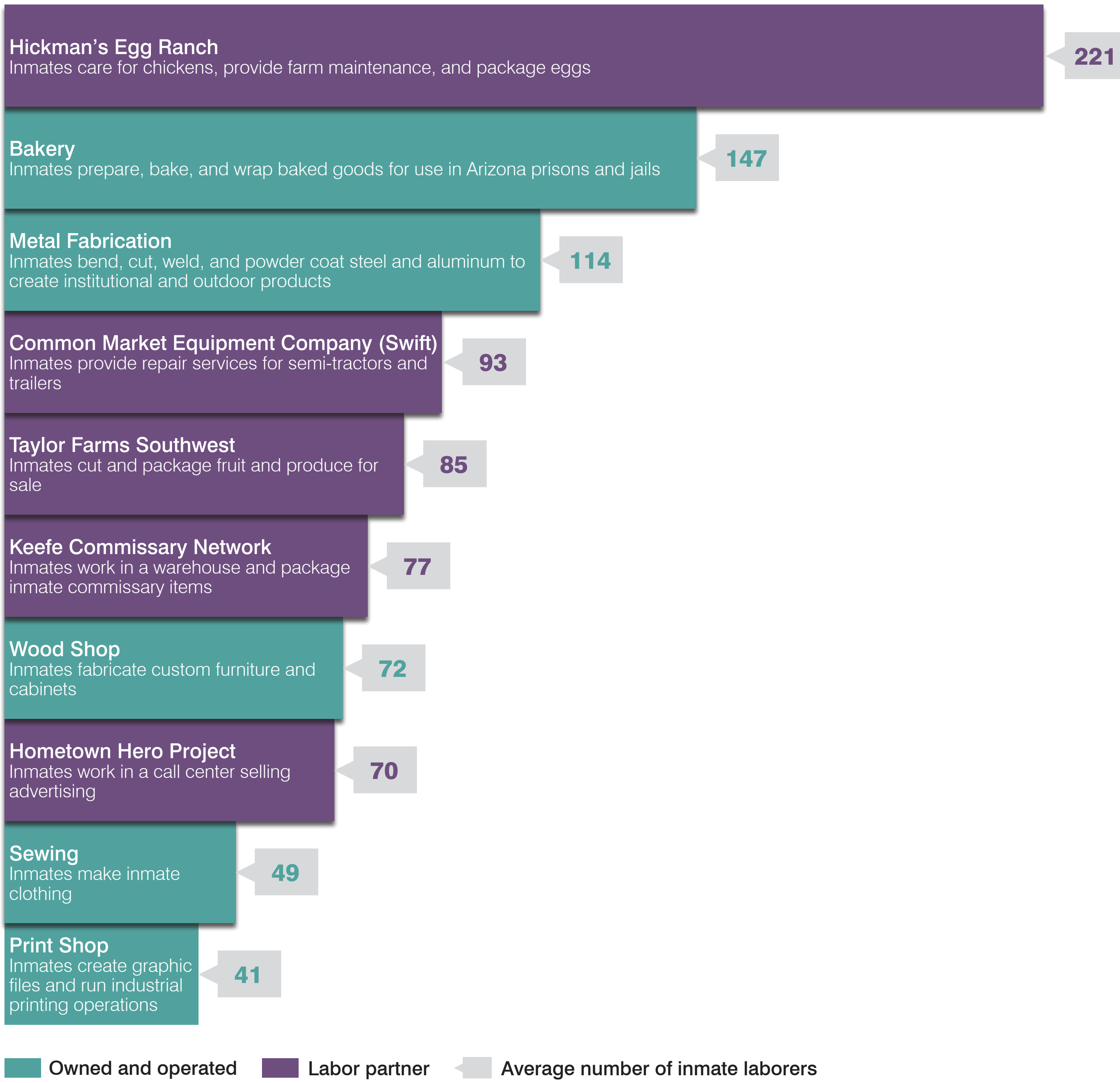
34 Of the 33 labor partners, 2 are under the prison industry enhancement certification program (PIECP), which is a federal program that requires labor contracts to meet certain federal requirements. In Arizona, inmates are hired for PIECP jobs such as welding or fabrication of custom trailers.

35 We reviewed contracts and contract amendments for the following 4 labor partners: Hickman's Egg Ranch, Inc.; Keefe Commissary Network, LLC; Common Market Equipment Company Inc. (also known as Swift); and Taylor Farms Southwest. These 4 partners represented the contracts with the highest number of inmate labor hours, inmate workers, and ACI revenue in fiscal year 2019.

36 The $4.25 to $5.25 inmate wage scale was added as a contract amendment going into effect the pay period beginning January 4, 2020, for the 4 contracts we reviewed. ACI staff indicated that this amendment was in the process of being added to other active contracts with private company labor partners that are not under the PIECP. Under the PIECP, inmates must be paid at a rate that is not less than the rate paid for similar work in the local private sector.

Figure 5 shows the 5 ACI enterprises and 5 labor partners with the highest average number of inmate laborers in fiscal year 2019. According to ACI's fiscal year 2019 annual report, inmates laboring in both types of ACI work programs earned $12.7 million in wages during the fiscal year.[37]

Figure 5
The 5 ACI enterprises and 5 labor partners with the highest average number of inmate laborers
Fiscal year 2019
(Unaudited)



Source: Auditor General staff review of ACI documents and website.

[37] Per A.R.S. §31-254(J), inmates with ACI jobs are not considered employees of the labor partner or the Department.

Question 5: How does ACI account for its financial activity?

Because ACI operates like a business, its financial activity is accounted for in a similar manner as private businesses. As shown in Table 5, ACI had sales between approximately $41.5 million and $48 million in fiscal years 2016 through 2019. As allowed by statute, most of ACI's sales are used to pay for the costs of acquiring or manufacturing products, including labor and materials. After accounting for these costs, selling, and general administrative costs, ACI's net income was between approximately $3 million and $6.5 million in fiscal years 2016 through 2019.

Although ACI can retain some of its operating income, it is required to transfer some of its operating income to other funds and for other purposes. Specifically, ACI had accumulated more than $14.5 million, primarily from its operating income, as of June 30, 2019, that is available for its operations in future years. Additionally, A.R.S. §41-1624(B) requires an annual transfer of $1 million from ACI operating income to the Department's BR Fund. Other laws also required transfers to the BR Fund, State General Fund, and State Automation Projects Fund in fiscal years 2016 through 2019. Further, in accordance with an interagency agreement, the Department transferred $6.5 million to ADOA in fiscal year 2019 for facility upgrades—including upgrades to locking systems and fire and HVAC systems—at the Lewis and Yuma prison complexes.

Table 5
Schedule of ACI Revolving Fund revenues, expenses, and changes in net position
Fiscal years 2016 through 2019

	2016	2017	2018	2019
Sales	$41,585,608	$43,606,697	$44,584,776	$47,977,618
Cost of goods sold	(32,535,870)	(32,861,846)	(32,379,375)	(35,746,615)
Gross profit	9,049,738	10,744,851	12,205,401	12,231,003
Operating Expenses				
Selling	801,534	866,652	726,980	862,158
General and administrative	5,205,533	5,384,706	5,146,443	5,120,818
Total operating expenses	6,007,067	6,251,358	5,873,423	5,982,976
Operating income	**3,042,671**	**4,493,493**	**6,331,978**	**6,248,027**
Nonoperating revenue (expenses)				
Investment earnings	32,519	42,257	83,357	189,620
Gain on disposal of assets		63,943	49,441	27,050
Loss on disposal of assets	(27,359)			
Total nonoperating revenues (expenses)	5,160	106,200	132,798	216,670
Income before transfers	**3,047,831**	**4,599,693**	**6,464,776**	**6,464,697**
Nonoperating revenue (expenses)				
Transfers to the Building Renewal Fund[1]	1,000,000	1,000,000	2,450,000	1,000,000
Transfers to the Arizona Department of Administration[2]				6,500,000
Transfers to the State General Fund[3]	500,000			1,500,000
Transfers to the State Automation Projects Fund[4]		1,000,000		
Total transfers	1,500,000	2,000,000	2,450,000	9,000,000
Changes in net position	**1,547,831**	**2,599,693**	**4,014,776**	**(2,535,303)**
Net position, beginning of year	11,960,480	13,508,311	16,108,004	17,045,598
Restatement[5]			(3,077,182)	
Net position, end of year	**$13,508,311**	**$16,108,004**	**$17,045,598**	**$14,510,295**

1 Transfers to the BR Fund were made in accordance with A.R.S. §41-1624(B). In fiscal year 2018, Laws 2017, Ch. 305, §143, required an additional $1.45 million transfer to the BR Fund.

2 Transfers to ADOA were made in June 2019 as stipulated in an interagency agreement to pay for part of the costs of locking, fire, and HVAC upgrades at the Lewis and Yuma prison complexes. See Chapter 3, pages 19 through 20, for more information about facility upgrades at the Lewis and Yuma prison complexes.

3 Transfers to the State General Fund were required by Laws 2015, Ch. 8, §133(5), and Laws 2018, Ch. 276, §140(5).

4 Transfers to the State Automation Projects Fund were required by Laws 2016, Ch. 117, §158(B)(5). In addition, an additional $73,700 was transferred from the ACI Revolving Fund in fiscal year 2017 as required by Laws 2016, Ch. 117, §130(C)(D); however, the amount was not included in the audited financial statements.

Table 5 continued

5 A restatement impacting the beginning fund balance was made in fiscal year 2018 because of a change in accounting principles that required measuring and recognizing certain financial activity that reduced the fund's net position.

Source: Auditor General staff analysis of the *Department of Corrections Arizona Correctional Industries Financial Statements* audited by other auditors and the Arizona Financial Information System *Accounting Event Transaction File* for fiscal years 2016 through 2019.

Question 6: How are ACI labor partnerships developed?

ACI labor partnerships involve a contract for inmate labor between ACI and the labor partner. ACI uses various strategies to identify and recruit potential labor partners, and ACI staff said the majority of its labor partners are identified through word of mouth by current labor partners. Once a labor partner has been identified, the contract for inmate labor is developed.[38] Contracts can be amended as needed, including to address changes to security, safety, or inmate wages.[39]

Per the contracts, labor partners pay the following costs to ACI:

- The inmates' wages, including overtime wages if applicable. This cost is a reimbursement to ACI for ACI's payment of inmate wages from the ACI Revolving Fund.
- The wages for industry program specialists (IPS), who are security personnel ACI hires to oversee the inmates while they are being transported or working.
- An ACI administrative fee of 11 percent of the total gross wages paid to inmates and IPS. ACI considers this fee to be the minimum gross profit it should make on the labor contracts.
- A minimum wage surcharge, if applicable.[40] ACI reported incorporating this surcharge into its contracts to help ensure fair market practices because the labor partners generally pay less than minimum wage for inmate labor. The surcharge is retained by ACI and not paid to the inmates.

According to ACI, the labor contracts benefit both the labor partners and ACI. Specifically, the labor partners benefit from access to a trained workforce (i.e., they can train the inmates to their specific business needs while in prison and then hire them after their release from prison as skilled workers) and qualify for a federal tax credit if they hire inmates within 1 year of their release.[41] The contracts benefit both ACI and the Department by generating revenue for each. For example, as stated previously, ACI is statutorily required to transfer $1 million annually from its revolving fund to the Department's BR Fund.

Question 7: How are inmates selected for ACI positions?

Designated Department staff select inmates for positions with ACI based on an application process to assess qualifications.[42] According to Department Order 903, these Department staff post ACI job openings, and interested inmates apply for the positions.[43] Department staff then review inmates' applications against standardized requirements, such as having had no minor disciplinary offenses/convictions in the previous 3 months (see textbox, page 24, for examples), and determine if the inmates qualify for an ACI position. According to the Department, qualified inmates are selected in order of application.

38 The labor contract is mainly standardized and is drafted and executed by the Department's procurement staff.

39 Contracts with the potential to be renewed are renewed through amendments at intervals specified in the contract.

40 The minimum wage surcharge is applicable if the hourly cost paid by the labor partner is less than the State or federal minimum wage, whichever is higher. The minimum wage surcharge amount is the difference between the minimum wage and the hourly costs.

41 According to the Internal Revenue Service, the Federal Work Opportunity Tax Credit is available to employers that hire individuals from certain targeted groups who have consistently faced significant barriers to employment. This targeted group includes "qualified ex-felons," who are persons hired within 1 year of being convicted of a felony or being released from prison for the felony.

42 According to Department Order 903, the labor partner can request and conduct interviews of qualified inmates prior to their assignment. Department staff reported these requests are rare.

43 According to Department Order 903, the job posting should include the specific position(s); rate of pay; shift; minimum qualifications; and specific job duties.

Example requirements for ACI jobs

Inmates must have/be:

- A high school diploma or equivalent.[1]
- No major convictions in the previous 6 months.
- No removals from previous work positions during their current incarceration.
- In minimum custody.
- Within 10 years of their earliest valid release date.

1 According to ACI staff, the Department requires inmates to have completed their high school equivalent (HSE) diploma. However, since there are more inmates signed up for an HSE course than class openings, an inmate can still be placed with an ACI job as long as the inmate is on the waiting list for the HSE course. Once the inmate is admitted to the course, he/she is required to leave his/her ACI job and must complete the course before returning to an ACI job.

Source: Auditor General staff review of Department Order 903.

Question 8: How much are Arizona inmates paid for work and how does this compare to other states?

In Arizona, inmate wages vary depending on the work program for which an inmate performs labor (see Table 6).

Table 6
Inmate pay ranges by work program
As of May 2020

Inmate work programs	Pay range
ACI labor contracts—ACI contracts with private companies or government entities to hire inmates, such as call center or commissary employees.	Minimum of $2.00 per hour[1]
ACI-owned-and-operated businesses—ACI businesses hire inmates to make products and provide services, such as in bakeries or print shops.	$0.20 to $0.80 per hour
Prison industry enhancement certification program (PIECP)—Federal program that requires labor contracts to meet certain federal requirements.[2] Inmates are hired for jobs such as welding or fabrication of custom trailers.	At least the minimum wage established by federal law
Intergovernmental agreements (IGAs)—IGAs between the Department and other public entities to provide services, such as cleaning crews.	Maximum of $1.50 per hour[1]
Work incentive pay plan (WIPP)—Department-run program for various prison jobs, such as kitchen workers or maintenance crews.	$0.10 to $0.50 per hour[3]

1 The exact inmate wages are agreed upon in the individual contracts, but statute establishes the minimum wage for the ACI labor contracts and the maximum wage for IGA contracts. For the 4 ACI contracts we reviewed, inmates earn between $4.25 and $5.25 per hour.

2 In Arizona, ACI oversees the federal PIECP, and it is considered a subset of the ACI labor partner contracts. The PIECP's inmate wage requirements differ from other ACI labor contracts.

3 Per A.R.S. §31-229(F), inmates may not receive a wage above the lowest wage paid in a job scale before reaching the functional literacy level. A.R.S. §31-229(I) states that the functional literacy level, as measured by standardized assessment testing, for inmates committed to the Department after September 30, 1995, shall be an eighth-grade literacy level. Per Department Order 903, the $0.10 per hour applies only to those inmates who have not yet met the functional literacy standard. For all others, the lowest starting pay is $0.15 per hour.

Source: Auditor General staff review of statutes, Department Order 903, and information provided by Department staff.

Our comparison of Arizona's inmate wages to 4 other states found that they are about the same or lower than these other states' wages for correctional industry jobs (owned and operated businesses) and noncorrectional industry jobs (i.e., WIPP or similar program), except for Texas, which does not pay inmates (see Table 7). The other states reported they did not have a labor contracts program similar to the Department's within their correctional industries; however, Washington reported that it is contemplating developing such a program.

Table 7
Arizona's inmate pay ranges for correctional industry and noncorrectional industry jobs compared to 4 other states

State	Correctional industry jobs (owned and operated)	Noncorrectional industry jobs (WIPP or similar program)
Arizona	$0.20 to $0.80 per hour	$0.10 to $0.50 per hour
Ohio	$0.23 to $1.35 per hour	$6.00 to $24.00 monthly
Texas	Does not pay inmates	Does not pay inmates
Virginia	$0.55 to $0.80 per hour	$0.27 to $0.45 per hour
Washington	$0.65 to $2.70 per hour	$0.30 to $0.42 per hour (not to exceed $55.00 per month)

Source: Auditor General staff interviews with 4 other states' corrections staff and review of supporting documentation, as applicable, between February and June 2020.

Question 9: How much are Arizona inmates charged for phone use and how does it compare to other states?

The Department sells phone minutes to inmates at a cost of $0.12 per minute for local calls, $0.21 per minute for interstate calls, and $0.40 per minute for international calls. According to the Department's contract for inmate phone services, the Department receives a 75.3 percent commission on all phone revenues. In fiscal year 2019, the Department received a total of $8,274,270 in commissions.

Our comparison of Arizona's inmate phone use rates to 4 other states found that Arizona had the highest phone minute rates for domestic calls (see Table 8, page 26).

Table 8

Arizona's inmate phone use rates compared to 4 other states

State	Phone use cost
Arizona	$0.12 per minute (local calls) $0.21 per minute (other domestic calls) $0.40 per minute (international calls)
Ohio	$0.05 per minute (domestic calls) Between $0.22 and $3.00 per minute (international calls)
Texas[1]	$0.06 per minute (domestic calls)
Virginia[1]	$0.04 per minute (domestic calls)
Washington	$0.11 per minute (domestic calls) $1.63 per minute (international calls)

[1] Texas' and Virginia's inmate phone systems do not allow international calls, although Virginia inmates can make international calls on a limited basis from an administrative phone system.

Source: Auditor General staff interviews with 4 other states' corrections staff and review of supporting documentation, as applicable, between February and June 2020.

Question 10: How much is Arizona's inmate medical copay and how does it compare to other states?

The Department charges inmates a $4.00 medical copay for medical visits. The Department reported that it does not charge inmates multiple copays for treatment of the same issue, nor does it charge a copay for prescriptions or use of medical equipment, such as bandages, nebulizers, or glucose tests. The Department also reported that an inmate who cannot afford the copay will still receive medical services, but the inmate's account will retain a negative balance for the copay and the inmate is responsible for paying the copay when he/she is able to.

Our comparison of Arizona's medical copay to 4 other states found that it is within the range of medical copays charged by these other states (see Table 9, page 27).

Table 9
Arizona's inmate medical copay compared to 4 other states

State	Medical costs
Arizona	$4.00 medical copay
Ohio	$2.00 or $3.00 medical copay[1]
Texas	$13.55 medical copay (not to exceed $100.00 per state fiscal year)
Virginia	No medical copay[2]
Washington	$4.00 medical copay

[1] Ohio charges a $2.00 medical copay for medical services initiated by an inmate through an appropriate health services request and a $3.00 copay if an inmate requests an emergency medical service and medical staff determine that a medical emergency did not exist.

[2] Effective January 1, 2020, the Virginia Department of Corrections stopped charging inmates a medical copay. Prior to January 1, 2020, inmates were charged a $5.00 medical visit fee.

Source: Auditor General staff interviews with 4 other states' corrections staff and review of supporting documentation, as applicable, between February and June 2020.

Question 11: How much is Arizona's inmate utility fee and how does it compare to other states?

The Department charges inmates a $2.00 per-month utility fee, which is the maximum rate allowed by statute.[44] Specifically, A.R.S. §31-239(A) requires the Department to establish a reasonable utility fee that does not exceed $2 per month. The fee is charged to inmates who possess a qualifying appliance, such as a television or hair dryer. Statute requires the Department to use the monies collected from the fee to offset the cost of the Department's utility expenses.

Our comparison of Arizona's utility fee to 4 other states found that only Arizona and Washington charge a utility fee, and Arizona's fee was higher than Washington's fee (see Table 10, page 28).[45]

[44] The Department reported that the utility fee was established at $1.00 per month in 2006 but increased to $2.00 per month in August 2009 as part of a larger State and Department strategy to address budget shortfalls.

[45] Our review of other states' policies found that the other states we contacted also allow inmates to possess personal appliances, such as hair dryers, televisions, and radios.

Table 10
Arizona's inmate utility fee compared to 4 other states

State	Utility fee
Arizona	$2.00 per month for any qualifying appliance
Ohio	No utility fee
Texas	No utility fee
Virginia	No utility fee
Washington	$0.50 per month fee for television

Source: Auditor General staff interviews with 4 other states' corrections staff and review of supporting documentation, as applicable, between February and June 2020.

Question 12: What fees do Arizona offenders pay after release to community corrections?

The Department has the authority to charge several community corrections fees, including a community supervision fee, an interstate compact transfer application fee, electronic monitoring costs, and drug testing fees.[46] However, according to Department management, it primarily charges offenders for the following fees, which are collected by third-party vendors and transferred to the Department:

- **Community supervision fee—**According to A.R.S. §31-418(A), offenders are charged a community supervision fee of $65 each month, depending on the offender's ability to pay.[47] In fiscal year 2019, the Department collected approximately $1.1 million in community supervision fees. The Department is required to deposit 70 percent of the community supervision fees collected into the Arizona Criminal Justice Commission's (ACJC) Victim Compensation and Assistance Fund.[48] The Department is required to deposit the remaining 30 percent in its Community Corrections Enhancement Fund, which shall be used by the Department to pay for costs related to community corrections.[49]

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[46] According to Department staff, the Department does not charge any drug testing fees. In addition, it charges some electronic monitoring fees/GPS fees when offenders can afford to pay them.

[47] A.R.S. §31-418(A) allows the Department to require a lesser amount if the offender is unable to pay the fee. According to Department staff, the Department has the ability to reduce or suspend fees if it is determined from a review of an offender's financial records, and based on the U.S. Department of Health and Human Services federal poverty level guideline, that the offender does not have the ability to pay the fee.

[48] A.R.S. §41-2407(A) establishes the Victim Compensation and Assistance Fund that the ACJC administers. Per A.R.S. §41-2407(B), subject to legislative appropriation, the ACJC allocates monies in the fund to public and private agencies for the purpose of establishing, maintaining, and supporting programs that compensate and assist victims of crime.

[49] See Appendix A, pages a-25 through a-26, for more information about the Community Corrections Enhancement Fund.

- **Interstate compact transfer application fee—**A.R.S. §31-467 et seq establishes Arizona's participation in the Interstate Compact for the Supervision of Adult Offenders. The Interstate Commission for Adult Offender Supervision (ICAOS) oversees the interstate compact agreement, and ICAOS rules allow states to charge offenders a fee for each application requesting a transfer to another state. In Arizona, offenders are charged a $200 application fee when they apply to transfer community supervision to another state through the interstate compact program. Monies collected for this fee are also deposited into the Community Corrections Enhancement Fund. In fiscal year 2019, the Department collected approximately $13,400 in application fees.

Question 13: How are prices for the Department's inmate commissary items set?

A.R.S. §41-1604.02 requires prices of commissary items available for sale to inmates to be no higher than similar retail items available to the public (see textbox). In December 2016, the Department contracted with a private vendor to operate inmate commissaries at each of its prison complexes and worked with the vendor to initially develop a list with all approved commissary items and prices. All subsequent proposed changes to commissary items and their prices must be approved by the Department. The Department reported that when there are proposed price increases to commissary items, it will search retail locations such as Circle K, Walgreens, Fry's, or Walmart to ensure that similar retail items at these stores are equal or higher in price. The Department reported that if it cannot identify an equal or higher price, it will deny the price increase.

The commissaries sell various items to inmates such as food, toiletries, electronics such as television sets and electric shavers, phone cards, and arts and crafts supplies.

Our comparison of 10 inmate commissary items' prices, such as food, personal hygiene items, over-the-counter medication, shoes, and batteries, to prices at 3 different retail stores that sell those items, such as Circle K, Walmart, Walgreens, and Fry's, found that the commissary items were generally priced lower than similar items at retail stores.[50]

Question 14: How are prices for vending machines in Department prison visitation areas set?

The Department does not establish prices for vending machines in its prison visitation areas (see textbox). The Department entered into an interagency service agreement with the Arizona Department of Economic Security (ADES) that provides job opportunities for legally blind individuals to operate vending services at the Department through ADES' Business Enterprise Program. ADES oversees the vendor, which is required by its contract with ADES to set prices in accordance with the average market value of the same or like product plus an allowed markup.[51]

Vending machines, with items such as beverages and snacks, are available for visitors' use in Department prison complex visitation areas. Visitors may purchase items for their own consumption or may share them with inmates during their visit.

Question 15: Are Arizona inmates allowed to market and sell inmate-made goods?

Department policy does not allow inmates to market and sell inmate-made goods. Per A.R.S. §31-261, products of inmate enterprise, hobby, craft, or art may be marketed to the public pursuant to rules established by the Department Director. According to Department staff, in previous years, inmates had the ability to sell their goods to the public through the Arizona Arts and Trade Outlet; however, the outlet closed in August 2015 primarily because it was not financially viable. Department Order 906, which became effective in September 2016, formally disallowed the sale of inmate-made goods.

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[50] For 3 items, the commissary prices were lower than the prices for similar items in 2 of the 3 retail stores.

[51] According to ADES staff, the allowed markup varies depending on the product type/category. The markup is not necessarily a fixed percentage but is generally 2 to 4 times a product's wholesale cost.

SUMMARY OF RECOMMENDATIONS

Auditor General makes 3 recommendations to the Department

To ensure compliance with State policy, the Department should:

1. Continue to resolve its data conversion issues and complete the reconciliations for those months that have not been fully reconciled (see Chapter 2, pages 12 through 16, for more information).

2. Develop and implement a strategy and time frame to resolve the outstanding unreconciled items from previous reconciliations and resolve them in accordance with this strategy and time frame. The Department should work with ADOA, as needed, to determine how to address unreconcilable items. Going forward, the Department should ensure that it resolves anomalies, deficiencies, imbalances, and errors detected through reconciliations generally within 30 days (see Chapter 2, pages 12 through 16, for more information).

3. Retain all historical supporting documentation for each monthly reconciliation in accordance with its record retention policy (see Chapter 2, pages 12 through 16, for more information).

APPENDIX A

Summary of Department funds

This appendix provides summary information for individual Department funds, including a schedule of each fund's revenues, expenditures, transfers, and changes in fund balance for fiscal years 2016 through 2019. Information about the Prisoner Spendable Accounts Fund, also called inmate trust accounts, is excluded from this appendix but is presented in Chapter 2 (see pages 12 through 16). Similarly, information about the Arizona Correctional Industries Revolving Fund is also excluded from this appendix but is summarized in Chapter 3 (see pages 22 through 23). See Table 1 in the Introduction (pages 2 through 3) for a summary schedule of the Department's combined revenues, expenditures, transfers, and changes in fund balance.

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General Fund

The Department's General Fund is an appropriated fund supported by State General Fund appropriations that accounts for expenditures of those appropriations. The Department's State General Fund appropriations accounted for nearly 94 percent of all Department revenues and expenditures for fiscal years 2016 through 2019. As shown in Table 11, the Department received over $1 billion annually from the State General Fund in these fiscal years. During this period, the Department also collected and remitted certain revenues to the State General Fund, primarily monies from a U.S. Department of Justice grant for federal reimbursement of costs for incarcerating undocumented criminal aliens.

As also shown in Table 11, the Department expended or transferred over $1 billion during fiscal years 2016 through 2019. Most expenditures were for payroll and related benefits for Department employees. Professional and outside services expenditures was the second largest expenditure category and was mostly for medical services paid to third-party vendors for inmate healthcare and private prisons. The Department also transferred monies to the Arizona Health Care Cost Containment System for inmate medical services.

Table 11
Schedule of General Fund revenues, expenditures, and transfers
Fiscal years 2016 through 2019
(Unaudited)

	2016	2017	2018	2019
Revenues[1]				
State General Fund appropriations	**$1,031,411,815**	**$1,039,187,307**	**$1,065,472,013**	**$1,097,814,345**
Expenditures and transfers				
Payroll and related benefits				
Payroll				
State prisons	366,481,192	365,390,382	363,914,111	363,364,324
Central office	29,293,176	30,430,696	31,424,185	32,282,118
Other[2]	13,421,834	13,775,050	14,647,165	13,773,352
Total payroll	409,196,202	409,596,128	409,985,461	409,419,794
Related benefits	210,621,660	202,960,822	221,242,199	230,006,300
Total payroll and related benefits	619,817,862	612,556,950	631,227,660	639,426,094
Professional and outside services				
Medical services	133,721,845	130,803,716	135,085,484	154,551,409
Institutional care[3]	118,434,700	121,420,914	119,970,518	119,420,382
Other[4]	6,743,872	7,899,472	9,379,298	7,142,067
Total professional and outside services	258,900,417	260,124,102	264,435,300	281,113,858
Travel	350,086	425,112	569,846	729,375
Food and related expenditures[5]	35,579,930	35,598,793	33,935,456	36,727,124
Aid to individuals[6]	176,552	162,271	153,960	150,320
Other operating				
Rent	25,039,363	34,253,383	42,307,136	42,593,375
Utilities	27,466,930	27,134,850	26,856,737	27,357,902
Operating supplies	16,927,678	16,961,455	17,072,608	18,432,618
Payments to inmates	9,761,343	9,992,687	10,166,925	10,406,133
Information technology services	8,717,131	9,244,253	8,634,505	8,753,225
Insurance and related	7,931,564	7,970,262	7,703,727	7,702,905
Repair and maintenance	5,845,178	6,810,934	5,538,133	7,075,741
Officer uniforms and inmate clothing	6,593,415	6,973,219	6,226,002	6,174,282
Other	1,530,639	1,902,017	4,028,881	2,598,559
Total other operating	109,813,241	121,243,060	128,534,654	131,094,740
Capital and noncapital purchases				

Table 11 continued

	2016	2017	2018	2019
Vehicles	1,316,160	2,135,869	1,214,483	1,980,502
Equipment	2,367,834	4,152,352	2,724,005	2,658,690
Adult Inmate Management System (AIMS) replacement			467,844	1,930,329
Building improvements	432,683	330,115	126,288	244,515
Other	624,739	789,167	319,806	336,169
Total capital and noncapital purchases	4,741,416	7,407,503	4,852,426	7,150,205
Total expenditures	1,029,379,504	1,037,517,791	1,063,709,302	1,096,391,716
Transfers to the Arizona Health Care Cost Containment System (AHCCCS) for inmate medical services	1,913,803	1,488,127	1,595,287	1,195,541
Transfers to other agencies[7]	118,508	181,389	167,424	227,088
Total transfers out	2,032,311	1,669,516	1,762,711	1,422,629
Total expenditures and transfers out	**$1,031,411,815**	**$1,039,187,307**	**$1,065,472,013**	**$1,097,814,345**

1 The table does not include monies the Department collected that were directly remitted to the State General Fund. Specifically, the Department received monies in fiscal years 2016, 2017, and 2019 from the U.S. Department of Justice for the State Criminal Alien Assistance Program (SCAAP) for a grant that provides federal payments to states and localities that incur correctional officer costs for incarcerating undocumented criminal aliens with at least 1 felony or 2 misdemeanor convictions for violations of state or local law, and who were incarcerated for at least 4 consecutive days. The Department remitted between $5.2 and $5.9 million of the monies received in fiscal years 2016, 2017, and 2019 directly to the State General Fund, and the remaining monies were deposited in the Department's Indirect Cost Recovery Fund (see Table 23, page a-21, footnote 1, for additional information). In addition, the Department collected between $3.9 million and $4.9 million annually in fiscal years 2016 through 2019 that were remitted directly to the State General Fund in accordance with statute. Most of these monies were collected from inmates for room and board as required by A.R.S.§31-254(E)(4) and remitted to the State General Fund in accordance with A.R.S. 41-1674(B)(3).

2 Other payroll expenditures were payments to Department employees who work at various locations such as ACI, community corrections offices, parole offices, private prisons, and the Correctional Officer Training Academy.

3 Nearly all the institutional care expenditures were payments to private prison providers.

4 Other professional and outside services include various external services such as legal services, project consultants for the Governor's initiative to reduce waste and defects and the Department's AIMS replacement, drug testing, substance abuse programs, electronic monitoring, and veterinary services.

5 Food and related expenditures are primarily contracted food services for inmates and offenders; however, it also includes contracted food services for the correctional officer cadets at the Correctional Officer Training Academy.

6 Aid to individuals' expenditures were for the costs of discharging inmates, such as paying for release clothing and gate fees and reimbursing private prison providers for similar costs.

7 Transfers to other agencies primarily comprises transfers to ADOA; however, fiscal year 2019 also includes transfers to the Governor's Office. These transfers helped pay for positions within the agencies that perform duties for the Department such as a procurement officer at ADOA.

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for July 1, 2015 through December 31, 2019; State of Arizona *Annual Financial Report* for fiscal years 2016 through 2019; and Department-provided information.

Corrections Fund

The Corrections Fund is an appropriated fund established by A.R.S. §41-1641. Although the Department administers the fund and makes most of the fund expenditures, ADOA was also appropriated fund monies during fiscal years 2016 through 2019. Fund monies may be spent for:

- Major maintenance, construction, lease, purchase, renovation, or conversion of corrections or State-operated juvenile facilities, subject to prior Joint Committee on Capital Review (JCCR) and legislative approval.
- Minor maintenance and operation of corrections and State-operated juvenile facilities, subject to prior legislative approval.
- A required $2.5 million transfer to the Department's Building Renewal Fund.

The fund receives a portion of luxury taxes collected on alcohol and tobacco products. Specifically, 20 percent of monies collected on spirituous liquor, 50 percent of monies collected on vinous and malt liquors, and 50 percent of most general tax rate collections on tobacco products are deposited into the fund. As shown in Table 12, these deposits totaled more than $31 million annually for fiscal years 2016 through 2019. Additionally, State law required the transfer of $2.8 million to the fund from other Department funds in fiscal year 2017 to purchase replacement radios.

As shown in Table 12, the Department largely spent fund monies for institutional care, primarily for payments to private prison providers. In addition, $2.5 million was transferred annually from the Corrections Fund to the Building Renewal Fund, as required by statute. Transfers were also made to the State General Fund and State Automation Projects Fund as required by law. The remaining monies were spent for operating costs, primarily contracted food services for inmates, as permitted by a $3,000,800 appropriation each year from the Corrections Fund for operations.

Table 12
Schedule of Corrections Fund revenues, expenditures, transfers, and changes in fund balance
Fiscal years 2016 through 2019
(Unaudited)

	2016	2017	2018	2019
Revenues and transfers in				
Luxury taxes	$32,812,672	$31,442,840	$31,968,457	$32,160,153
Transfers from the Inmate Store Proceeds Fund[1]		1,000,000		
Transfers from the Revolving Fund[1]		500,000		
Transfers from the State Charitable, Penal and Reformatory Institutions Land Earnings Fund[1]		500,000		
Transfers from the Special Services Fund[1]		400,000		
Transfers from the Penitentiary Land Earnings Fund[1]		400,000		
Total transfers in		2,800,000		
Total revenues and transfers in	**32,812,672**	**34,242,840**	**31,968,457**	**32,160,153**
Expenditures and transfers out				
Professional and outside services – institutional care[2]	22,977,860	23,070,203	25,556,224	25,616,321
Inmate food and related	2,516,323	2,774,418	2,996,472	2,996,019
Other operating	162	244,849		
Capital and noncapital purchases – equipment[3]		2,483,193		
Total Department expenditures	25,494,345	28,572,663	28,552,696	28,612,340
Expended by the Arizona Department of Administration[4]	123,399	425,375	407,988	513,152
Total Corrections Fund expenditures	25,617,744	28,998,038	28,960,684	29,125,492

Table 12 continued

	2016	2017	2018	2019
Transfers to the Building Renewal Fund[5]	2,500,000	2,500,000	2,500,000	2,500,000
Transfers to the State General Fund[5]	1,250,000			1,500,000
Transfers to the State Automation Projects Fund[5]		6,800		
Total transfers out	3,750,000	2,506,800	2,500,000	4,000,000
Total expenditures and transfers out	**29,367,744**	**31,504,838**	**31,460,684**	**33,125,492**
Net change in fund balance	3,444,928	2,738,002	507,773	(965,339)
Fund balance, beginning of year	3,704,603	7,149,531	9,887,533	10,395,306
Fund balance, end of year	**$7,149,531**	**$9,887,533**	**$10,395,306**	**$9,429,967**

1 Transfers in from these funds were made in accordance with Laws 2016, Ch. 117, §160, to purchase replacement radios.

2 Nearly all institutional care expenditures were payments to private prison providers.

3 Capital and noncapital purchases involved the purchase of replacement radios from monies transferred into the Corrections Fund (see footnote 1 for additional information).

4 Amount expended by ADOA from its appropriation from the Corrections Fund.

5 Transfers to the Building Renewal Fund were made in accordance A.R.S. §41-1641(E). In addition, in fiscal years 2016 and 2019, the Department was required to transfer monies from the Corrections Fund to the State General Fund in accordance with Laws 2015, Ch. 8, §133(5) and Laws 2018, Ch. 276, §140(5), and to the State Automation Projects Fund in accordance with Laws 2016, Ch. 117, §130(C)&(D).

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for July 1, 2015 through December 31, 2019; State of Arizona *Annual Financial Report* for fiscal years 2016 through 2019; and Department-provided information.

Prison Construction and Operations Fund

The Prison Construction and Operations Fund is an appropriated fund established by A.R.S. §41-1651. The fund receives assessments ranging from $500 to $1,500 charged to persons convicted of offenses for being under the influence of intoxicating liquor or drugs while operating boats, vehicles, or aircraft. For example, A.R.S §5-395.01(A)(4) established a $500 assessment for first offenses of operating a motorized watercraft while under the influence, and A.R.S. §28-1383(J)(4) established a $1,500 assessment for aggravated driving while under the influence.

According to statute, fund monies shall be used for any costs related to prison overcrowding and Department support and maintenance. Additionally, State laws appropriated $10 million annually in fund monies for contracted inmate healthcare services in fiscal years 2016 through 2019.[52] State laws also appropriated nearly $3.7 million in fiscal years 2016 and 2017 and $2.5 million in fiscal years 2018 and 2019 for operations, including food and related expenditures. As shown in Table 13, the Department spent fund monies primarily for medical services and food and related expenditures in fiscal years 2016 through 2019, in accordance with its appropriations.

Table 13
Schedule of Prison Construction and Operations Fund revenues, expenditures, transfers, and changes in fund balance
Fiscal years 2016 through 2019
(Unaudited)

	2016	2017	2018	2019
Revenues				
Assessments[1]	**$11,917,415**	**$11,291,814**	**$10,519,207**	**$10,348,656**
Expenditures and transfers				
Professional and outside services – medical services	8,000,000	8,776,565	6,690,632	10,000,000
Inmate food and related	3,684,382	2,273,011	2,415,170	
Other operating – information technology services	1,263			
Total expenditures	11,685,645	11,049,576	9,105,802	10,000,000
Transfers to the State Automation Projects Fund[2]		5,000		
Total expenditures and transfers	**11,685,645**	**11,054,576**	**9,105,802**	**10,000,000**
Net change in fund balance	231,770	237,238	1,413,405	348,656
Fund balance, beginning of year	1,056,218	1,287,988	1,525,226	2,938,631
Fund balance, end of year	**$1,287,988**	**$1,525,226**	**$2,938,631**	**$3,287,287**

1 Assessments were charges ranging from $500 to $1,500 from persons convicted of offenses for being under the influence of intoxicating liquor or drugs while operating boats, vehicles, or aircraft, in accordance with statutes.

2 Transfers to the State Automation Projects Fund in fiscal year 2017 were made in accordance with Laws 2106, Ch. 117, §130(C)&(D).

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for July 1, 2015 through December 31, 2019; State of Arizona *Annual Financial Report* for fiscal years 2016 through 2019; and Department-provided information.

52 As shown in Table 13, the Department did not spend its entire $10 million appropriation in fiscal years 2016 through 2018. Unspent amounts remain in the fund but require another appropriation to be spent in future years.

Special Services Fund

The Special Services Fund is a nonappropriated fund established by A.R.S.§41-1604.03. The fund receives revenues primarily from the sale of phone minutes to inmates. The Department contracts with a vendor to provide telephone services to inmates and receives 75.3 percent commission on all phone revenues (see Chapter 3, pages 25 through 26, for more information). The fund also receives investment income. Statute requires the Department to transfer $500,000 of fund monies annually to the Department's Building Renewal Fund. Any remaining monies may be used for inmates' benefit, education, and welfare and to pay for the costs of implementing, operating, and maintaining technologies and programs for inmate use.

As shown in Table 14, in fiscal years 2016 through 2019, the Department primarily used fund monies to pay for inmate education and training, recovery housing, and behavior modification programs. Beginning in fiscal year 2018, the Department also began using fund monies to pay for inmate satellite television services, which were previously paid from the Department's Inmate Store Proceeds Fund. The Department also transferred $500,000 annually to its Building Renewal Fund, as required by statute.

Table 14
Schedule of Special Services Fund revenues, expenditures, transfers, and changes in fund balance
Fiscal years 2016 through 2019
(Unaudited)

	2016	2017	2018	2019
Revenues				
Telephone system commissions[1]	$5,006,449	$8,036,182	$7,377,591	$8,274,270
Investment income	182,819	240,083	375,099	691,605
Other	105			
Total revenues	**5,189,373**	**8,276,265**	**7,752,690**	**8,965,875**
Expenditures and transfers				
Payroll and related benefits				191,029
Professional and outside services				
Inmate education and training	3,006,491	3,034,078	34,128	3,567,072
Behavior modification programs and recovery housing			1,957,587	2,081,573
Other	105,005	86,148	87,787	108,569
Total professional and outside services	3,111,496	3,120,226	2,079,502	5,757,214
Travel				984
Other operating				
Satellite television[2]			1,977,368	1,915,638
Books, subscriptions, and publications	117,430	146,106	93,756	127,920
Operating supplies	59,167	98,858	67,939	8,855
Repair and maintenance		145,244		
Other	72,685	7,505	24,071	91,728
Total other operating	249,282	397,713	2,163,134	2,144,141
Capital and noncapital purchases				
Building improvements			287,547	504,005
Equipment	1,928	148,503	2,722	37,253
Software		67,293		
Other		10,724	61,035	1,255
Total capital and noncapital purchases	1,928	226,520	351,304	542,513
Total expenditures	3,362,706	3,744,459	4,593,940	8,635,881
Transfers to the Building Renewal Fund[3]	500,000	500,000	500,000	500,000
Transfers to the Corrections Fund[4]		400,000		

Table 14 continued

	2016	2017	2018	2019
Transfers to the State General Fund[4]	2,000,000		1,000,000	25,200
Transfers to the State Automation Projects Fund[4]		4,000,000		
Total transfers	2,500,000	4,900,000	1,500,000	525,200
Total expenditures and transfers	**5,862,706**	**8,644,459**	**6,093,940**	**9,161,081**
Net change in fund balance	(673,333)	(368,194)	1,658,750	(195,206)
Fund balance, beginning of year	8,252,161	7,578,828	7,210,634	8,869,384
Fund balance, end of year	**$7,578,828**	**$7,210,634**	**$8,869,384**	**$8,674,178**

[1] The Department received 75.3 percent of all phone services revenues related to its contract with a vendor to provide these services to inmates. See Chapter 3, pages 25 through 26, for more information.

[2] Beginning in fiscal year 2018 the Department began using its Special Services Fund instead of the Inmate Store Proceeds Fund to pay for inmate satellite television.

[3] Transfers to the Building Renewal Fund were made in accordance with A.R.S. §41-1604.03(B).

[4] The Department was required to transfer monies to the State General Fund, Corrections Fund, and State Automation Projects Fund in fiscal years 2016 through 2019 in accordance with Laws 2015, Ch. 8, §133(5); Laws 2016, Ch. 117, §§158(B)(7) and 160(4); and Laws 2018, Ch. 276 §§139(3) and 140(5).

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for July 1, 2015 through December 31, 2019; State of Arizona *Annual Financial Report* for fiscal years 2016 through 2019; and Department-provided information.

Federal Grants Fund

The Federal Grants Fund is authorized by A.R.S. §35-131(H) and is not subject to appropriation. The fund is used to account for federal monies the Department receives. The Department received monies from various federal grants during fiscal years 2016 through 2019, including:

- Crime Victim Assistance to provide financial support for services to crime victims by eligible crime victim assistance programs.
- Second Chance Act Reentry Initiative to support efforts to reduce recidivism and improve outcomes for people returning to the community from incarceration.
- Title I State Agency Program for Neglected and Delinquent Children and Youth to provide educational continuity for neglected and delinquent children and youth in State-run institutions and allow for a successful transition to school or employment once released.
- Special Education Grants to States to assist states in providing special education and related services to all children with disabilities.

As shown in Table 15, fund expenditures in fiscal years 2016 through 2019 included paying for employee payroll and related benefits; travel; employee education, training, and conference attendance; purchases of books, subscriptions, and publications; purchases of software and software support and maintenance; repair and maintenance; and purchases of equipment. The types and amounts of expenditures varied each fiscal year, which occurs depending on the amount and purpose of grant monies received each year.

Table 15
Schedule of Federal Grants Fund revenues, expenditures, transfers, and changes in fund balance
Fiscal years 2016 through 2019
(Unaudited)

	2016	2017	2018	2019
Revenues				
Federal grants	**$ 966,402**	**$1,612,170**	**$1,723,451**	**$1,422,681**
Expenditures and transfers				
Payroll and related benefits	187,581	197,155	328,638	631,508
Professional and outside services				
Education and training	84,132	93,908	323,305	193,355
Medical services			19,436	12,317
Other	17,554	1,172	24,440	36,698
Total professional and outside services	101,686	95,080	367,181	242,370
Travel	71,035	50,648	118,671	172,423
Food	56,525	50,368	36,313	28,521
Other operating				
Books, subscriptions, and publications	43,776	31,881	3,288	316,181
Software support and maintenance	37,273	184,651	76,715	181,568
Operating supplies	27,515	19,026	30,614	118,328
Repair and maintenance	81,063	143,396		110,137
Conference attendance fees	56,787	91,145	63,744	107,331
Employee education and training				93,190
Rent	1,736	11,838	16,466	36,690
Other	573	1,769	5,155	21,344
Total other operating	248,723	483,706	195,982	984,769
Capital and noncapital purchases				

Table 15 continued

	2016	2017	2018	2019
Equipment	212,778	357,472	187,827	138,683
Software	189,789	78,454	60,135	3,448
Building improvements		94,546		
Other	585	14,630	10,341	4,619
Total capital and noncapital purchases	403,152	545,102	258,303	146,750
Total expenditures	1,068,702	1,422,059	1,305,088	2,206,341
Transfers to the Indirect Cost Fund[1]	45,511		68,162	146,991
Total expenditures and transfers	**1,114,213**	**1,422,059**	**1,373,250**	**2,353,332**
Net change in fund balance	(147,811)	190,111	350,201	(930,651)
Fund balance, beginning of year	139,145	(8,666)	181,445	531,646
Fund balance (deficit), end of year[2]	**$ (8,666)**	**$ 181,445**	**$ 531,646**	**$ (399,005)**

1 Transfers to the Indirect Cost Recovery Fund were for the administrative portion of federal programs.

2 Timing differences occur for when federal monies are received and when they are spent; consequently, deficit balances occurred between fiscal years. Specifically, federal grants are often established on a reimbursement basis, meaning the Department would be required to expend the money prior to receiving a reimbursement, thereby creating a deficit balance for the grant.

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for July 1, 2015 through December 31, 2019; State of Arizona *Annual Financial Report* for fiscal years 2016 through 2019; and Department-provided information.

Inmate Store Proceeds Fund

The Inmate Store Proceeds Fund is a nonappropriated fund authorized by A.R.S.§41-1604.02. The fund receives revenues primarily from the sale of goods in the Department's prison commissaries. The Department contracts with a vendor to operate prison commissaries that sell various items to inmates, such as food, toiletries, electronics (e.g., television sets and electric shavers), phone cards, and stationery supplies. Per contract, the Department receives 17 percent of all sales revenue.[53] As shown in Table 16, the fund also receives rental revenue for space its prison commissary vendor occupies and other revenues (see footnote 2 in Table 16). The Department is required to transfer $500,000 annually from the fund to its Building Renewal Fund. Any remaining fund monies may be used for inmate activities, incentive pay increases for correctional officers, equipment to enhance safety for Department personnel and inmates, and other official needs.

As shown in Table 16, the fund was primarily used to pay for various other operating expenditures in fiscal years 2016 through 2019. For example, over half of the fund's expenditures in fiscal year 2019 were for operating supplies such as janitorial and maintenance supplies, block ice, and audio-visual-equipment-related supplies. In fiscal years 2016 and 2017, the Department also paid for inmate satellite television services from the fund, although it began paying for these services from its Special Services Fund beginning in fiscal year 2018 (see pages a-7 through a-8).

The Department transferred $500,000 annually to its Building Renewal Fund, as required by statute. Other laws also required transfers to the Corrections Fund, State General Fund, and State Automation Projects Fund during fiscal years 2016 and 2017 and to the Arizona Criminal Justice Commission in fiscal year 2018. The Department also transferred $3.5 million to ADOA in fiscal year 2019 to pay for facility upgrades—including upgrades to locking systems and fire and HVAC systems—at the Lewis and Yuma prison complexes.

In addition to the monies the Department received as shown in Table 16, the State's private prisons also manage monies that are used to benefit inmates. Specifically, the private prisons receive profits from inmate stores, vending machines, yard sales, and snack bars that can be used for inmate activities, inmate storekeepers' salaries, and other expenditures used for inmates' recreational benefit, education, and welfare. The private prisons are required to submit monthly financial reports to the Department for its review that present the revenues and expenditures of the monies and bank reconciliations. The monies from these accounts are not included in Table 16 because the Department does not manage them. According to private prison reports, fiscal year 2019 revenues totaled approximately $1.5 million, and expenditures totaled approximately $1.3 million. As of June 30, 2019, the private prisons reported a balance of $2.7 million in these private prison accounts.

Table 16
Schedule of Inmate Store Proceeds Fund revenues, expenditures, transfers, and changes in fund balance
Fiscal years 2016 through 2019
(Unaudited)

	2016	2017	2018	2019
Revenues				
Commissions[1]	$5,402,673	$6,524,612	$5,230,458	$6,800,769
Rental charges[1]	546,588	450,013	601,249	603,680
Other[2]	55,505	58,671	84,299	43,631
Total revenues	**6,004,766**	**7,033,296**	**5,916,006**	**7,448,080**
Expenditures and transfers				
Payroll and related benefits				146,880
Professional and outside services	2,000	2,000	29,785	2,887
Other operating				

[53] A July 2019 contract amendment reduced this percentage to 16.68 percent from August 1, 2019 to June 30, 2020.

Table 16 continued

	2016	2017	2018	2019
Operating supplies[3]	1,504,465	1,372,328	1,678,273	2,208,269
Books, subscriptions, and publications	72,416	208,770	135,737	325,585
Officer uniforms and inmate clothing	141,612	179,413	162,113	156,969
Information technology services, including satellite television[4]	2,432,360	1,823,120	196,515	136,574
Repair and maintenance	27,967	66,666	103,687	15,515
Other[5]	256,607	291,169	438,256	839,063
Total other operating	4,435,427	3,941,466	2,714,581	3,681,975
Capital and noncapital purchases				
Equipment	135,968	262,232	165,636	342,803
Buildings and building improvements			117,425	
Vehicles	5,240			
Other	18,751	816	1,036	3,821
Total capital and noncapital purchases	159,959	263,048	284,097	346,624
Total expenditures	4,597,386	4,206,514	3,028,463	4,178,366
Transfers to the Building Renewal Fund[6]	500,000	500,000	500,000	500,000
Transfers to the Corrections Fund[7]		1,000,000		
Transfers to the State General Fund[7]	2,500,000			
Transfers to the State Automation Projects Fund[7]		1,353,500		
Transfers to other State agencies[8]			750,000	3,500,000
Total transfers	3,000,000	2,853,500	1,250,000	4,000,000
Total expenditures and transfers	**7,597,386**	**7,060,014**	**4,278,463**	**8,178,366**
Net change in fund balance	(1,592,620)	(26,718)	1,637,543	(730,286)
Fund balance, beginning of year	5,035,040	3,442,420	3,415,702	5,053,245
Fund balance, end of year	**$3,442,420**	**$3,415,702**	**$5,053,245**	**$4,322,959**

1 The Department received 17 percent of all commissary sales revenues related to its contract with a vendor to operate prison commissaries. In addition, the Department received rental income from the vendor operating the prison commissaries, who pays rent for the space it occupies.

2 The Department reported that the other revenues were primarily from inmate fees for photos taken alone or with family members during visitation on specified days. According to Department policy, the fees are intended to cover the cost of the photos. In addition, according to the Department, fiscal year 2018 other revenues include approximately $33,000 for the reinstatement of expired payment warrants related to fiscal year 2016 payments.

3 Operating supplies comprised various supplies purchases. For example, in fiscal year 2019, the Department purchased ramada shades, block ice, audio-visual-related supplies, and janitorial, building, and plumbing supplies.

4 Information technology services expenditures decreased substantially beginning in fiscal year 2018 when the Department began using its Special Services Fund instead of the Inmate Store Proceeds Fund to pay for inmate satellite television.

5 The other category of other operating expenditures comprised various types of expenditures that benefit inmates. For example, in fiscal year 2019, the Department paid for licensing to allow showing of movies to inmates, movie rentals, audio-visual-related equipment, video game consoles and related equipment, ping pong tables, and barbeque equipment.

6 Transfers to the Building Renewal Fund were made in accordance with A.R.S. §41-1604.02.

7 The Department was required to transfer monies to the State General Fund, Corrections Fund, and State Automation Projects Fund in fiscal years 2016 and 2017 in accordance with Laws 2015, Ch. 8, §133(5) and Laws 2016, Ch. 117, §§130(C)&(D), 158(B)(6), and 160(1).

8 The Department was required to transfer $750,000 to the Arizona Criminal Justice Commission in fiscal year 2017 in accordance with Laws 2017, Ch. 286(A)(3). In addition, the Department transferred $3.5 million to ADOA in fiscal year 2019 in accordance with an interagency agreement to pay for facility upgrades at the Lewis and Yuma prison complexes, including locking, fire, and HVAC system upgrades.

Source: Auditor General staff analysis of the Arizona Financial Information System Accounting Event Transaction File for July 1, 2015 through December 31, 2019; State of Arizona Annual Financial Report for fiscal years 2016 through 2019; and Department-provided information.

Building Renewal Fund

The Building Renewal Fund is an appropriated fund established by A.R.S. §41-797. As shown in Table 17, the fund's primary revenue source is transfers from other Department funds in accordance with statute and laws. Inmate deposit fees and visitor background check fees are also deposited into the fund in accordance with statute and Department Orders.

As permitted by A.R.S. §41-797, fund monies must be used for building renewal projects that repair or rework buildings and supporting infrastructure and that result in maintaining a building's expected useful life, and up to 8 percent per year of the fund's annual expenditures are allowed for routine preventative maintenance. During fiscal years 2016 through 2019, the Department primarily used fund monies to pay for building improvements. The Department also transferred fund monies to the State General Fund in accordance with various laws.

Table 17
Schedule of Building Renewal Fund revenues, expenditures, transfers, and changes in fund balance
Fiscal years 2016 through 2019
(Unaudited)

	2016	2017	2018	2019
Revenues and transfers in				
Inmate deposit fees[1]	$544,519	$547,841	$578,490	$599,942
Visitor background check fees[2]	558,421	565,561	576,506	572,625
Total revenues	1,102,940	1,113,402	1,154,996	1,172,567
Transfers from the Corrections Fund[3]	2,500,000	2,500,000	2,500,000	2,500,000
Transfers from the Arizona Correctional Industries Fund[3]	1,000,000	1,000,000	2,450,000	1,000,000
Transfers from the Inmate Store Proceeds Fund[3]	500,000	500,000	500,000	500,000
Transfers from the Special Services Fund[3]	500,000	500,000	500,000	500,000
Total transfers in	4,500,000	4,500,000	5,950,000	4,500,000
Total revenues and transfers in	**5,602,940**	**5,613,402**	**7,104,996**	**5,672,567**
Expenditures and transfers				
Professional and outside services – engineering and architect fees	256,151	61,836		
Other operating				
Repair and maintenance	347,659	281,695	201,869	
Operating supplies	248,419	4,443		
Other			448	
Total other operating	596,078	286,138	202,317	
Capital and noncapital purchases				
Building improvements	4,849,609	4,319,044	7,509,973	6,117,084
Other improvements	547,402			
Equipment		317,024	690,214	378,386
Total capital and noncapital purchases	5,397,011	4,636,068	8,200,187	6,495,470
Total expenditures	6,249,240	4,984,042	8,402,504	6,495,470
Transfers to the State General Fund[4]	1,500,000			500,000
Total expenditures and transfers	**7,749,240**	**4,984,042**	**8,402,504**	**6,995,470**
Net change in fund balance	(2,146,300)	629,360	(1,297,508)	(1,322,903)
Fund balance, beginning of year	7,125,484	4,979,184	5,608,544	4,311,036
Fund balance, end of year	**$4,979,184**	**$5,608,544**	**$4,311,036**	**$2,988,133**

[1] Inmate deposit fees comprise 1 percent of deposits into inmate accounts, including inmate wages and money received through the mail, as permitted by A.R.S. §31-230(D) and established by Department Order 905.

Table 17 continued

[2] Visitor background check fees comprise a one-time $25 fee paid by persons visiting inmates for background checks as permitted by A.R.S. §41-1604(B)(3) and established in Department Order 911.

[3] Transfers during fiscal years 2016 through 2019 were made in accordance with A.R.S. §§41-1604.02, 1604.03(B), 1624(B), and 1641(E). In fiscal year 2018, Laws 2017, Ch. 305, §143, required an additional $1.45 million to be transferred from the Arizona Correctional Industries Revolving Fund.

[4] Transfers to the State General Fund were required by Laws 2015, Ch. 8, §133(5) and Laws 2018, Ch. 276, §140(5).

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for July 1, 2015 through December 31, 2019; State of Arizona *Annual Financial Report* for fiscal years 2016 through 2019; and Department-provided information.

Revolving Fund

The Revolving Fund is a nonappropriated fund established by A.R.S. §42-3106. The fund receives a portion of taxes assessed on liquor products established by A.R.S. §42-3052(1) through (4). Fund monies must be used for the following purposes:

- Implementing provisions of A.R.S. §31-411.01 that relate to parole and community supervision for persons who were previously convicted of possession or use of marijuana, a dangerous drug, or a narcotic drug. Specifically, a person released under this statute must participate in an appropriate drug treatment or education program as a condition of parole or community supervision.
- Offender participation in appropriate drug treatment programs.
- Reentry, education, or mental health assistance programs.

As shown in Table 18, the fund received nearly $4 million annually in fiscal years 2016 through 2019 from liquor tax revenues. In these years, the Department spent fund monies for professional and outside services, including reentry, education, mental health, and substance abuse services. The Department also used fund monies to pay for various operating expenditures for the Maricopa Reentry Center, which provides various services such as substance abuse treatment to offenders under community supervision. In addition, fund monies were transferred annually to the Transition Program Fund (see page a-17) and to other Department and State funds, as required by various laws.

Table 18

Schedule of Revolving Fund revenues, expenditures, transfers, and changes in fund balance

Fiscal years 2016 through 2019

(Unaudited)

	2016	2017	2018	2019
Revenues				
Luxury taxes[1]	$3,739,422	$3,749,630	$3,843,548	$3,891,848
Expenditures and transfers				
Professional and outside services				
Reentry, education, mental health, and substance abuse treatment services	1,839,940	3,236,119	1,426,455	978,579
Drug screening	139,992	279,332	211,794	246,111
Electronic monitoring		59,929		
Total professional and outside services	1,979,932	3,575,380	1,638,249	1,224,690
Offender food and related		8,428	82,026	99,558
Other operating[2]				
Utilities		149,627	163,472	165,795
Operating supplies		97,198	47,786	55,859
Repair and maintenance		42,350	13,995	16,083
Rent		6,530	9,342	10,377
Information technology services	961	10,333	1,876	5,040
Other		5,264	5,780	3,340
Total other operating	961	311,302	242,251	256,494
Capital and noncapital purchases				
Equipment		34,587	2,745	5,784
Vehicles		33,580		
Furniture		56,704	1,344	2,496
Other			64	
Total capital and noncapital purchases		124,871	4,153	8,280

Table 18 continued

	2016	2017	2018	2019
Total expenditures	1,980,893	4,019,981	1,966,679	1,589,022
Transfers to the Transition Program Fund[3]	1,335,877	1,515,754	1,664,419	1,908,573
Transfers to the Corrections Fund[4]		500,000		
Transfers to the State General Fund[4]	1,072,000			
Transfers to the State Automation Projects Fund[4]		33,100		
Total transfers	2,407,877	2,048,854	1,664,419	1,908,573
Total expenditures and transfers	**4,388,770**	**6,068,835**	**3,631,098**	**3,497,595**
Net change in fund balance	(649,348)	(2,319,205)	212,450	394,253
Fund balance, beginning of year	4,321,133	3,671,785	1,352,580	1,565,030
Fund balance, end of year	**$3,671,785**	**$1,352,580**	**$1,565,030**	**$1,959,283**

1 The fund receives a portion of taxes on liquor products as established by A.R.S. §42-3052(1) through (4).

2 The Department pays for operating costs, including utilities, for the Maricopa Reentry Center, which provides various services such as substance abuse treatment to offenders under community supervision. In fiscal year 2019, utilities comprised nearly 65 percent of the fund's other operating costs.

3 The Department transferred monies to the Transition Program Fund in fiscal years 2016 through 2019, in accordance with A.R.S. §31-285(C) (see page a-17).

4 Various laws required fund monies be transferred to other Department or State funds during fiscal years 2016 and 2017. Specifically, Laws 2015, Ch. 8, §133(5) required transfers to the State General Fund in fiscal year 2016, and Laws 2016, Ch. 117, §§130(C)&(D) and 160(2) required transfers to the Corrections Fund and State Automation Projects Fund in fiscal year 2017.

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for July 1, 2015 through December 31, 2019; State of Arizona *Annual Financial Report* for fiscal years 2016 through 2019; and Department-provided information.

Transition Program Fund

The Transition Program Fund is an appropriated fund established by A.R.S. §31-284. As shown in Table 19, this fund receives (1) a portion of earnings from every inmate not convicted of a driving-under-the-influence (DUI) offense and (2) transfers from the Revolving Fund for cost savings from implementing a transition program, as calculated by statute. The Transition Program provides eligible inmates with transition services in the community for up to 90 days. Fund monies may be spent for any costs related to administering the Transition Program and for Transition Program services. In fiscal years 2016 through 2019, the Department primarily used fund monies to obtain professional services for nonviolent drug offenders.

The Transition Program and this fund were scheduled to terminate effective July 1, 2020, unless the State extended the date. However, the Legislature adjourned because of the COVID-19 pandemic prior to extending the Transition Program and fund; therefore, the Governor signed Executive Order 2020-46 on July 1, 2020, extending both through March 31, 2021.

Table 19
Schedule of Transition Program Fund revenues, expenditures, transfers, and changes in fund balance
Fiscal years 2016 through 2019
(Unaudited)

	2016	2017	2018	2019
Revenues and transfers in				
Inmate wages[1]	$1,061,666	1,049,980	1,093,604	1,153,109
Transfers from the Revolving Fund[2]	1,335,877	1,515,754	1,664,419	1,908,573
Total revenues and transfers in	**2,397,543**	**2,565,734**	**2,758,023**	**3,061,682**
Expenditures and transfers out				
Professional and outside services – medical services[3]	1,534,443	2,399,722	2,400,100	1,260,101
Other operating	3,262	374		
Total expenditures	1,537,705	2,400,096	2,400,100	1,260,101
Transfers to the State Automation Projects Fund[4]		1,500		
Total expenditures and transfers out	**1,537,705**	**2,401,596**	**2,400,100**	**1,260,101**
Net change in fund balance	859,838	164,138	357,923	1,801,581
Fund balance, beginning of year	547,132	1,406,970	1,571,108	1,929,031
Fund balance, end of year	**$1,406,970**	**$1,571,108**	**$1,929,031**	**$3,730,612**

1 A.R.S. §31-254(D)(3) requires inmates who were not convicted of DUI offenses to pay 5 percent of their wages, if available after other obligations, to the Transition Program Fund.

2 A.R.S. §31-285(C) requires cost savings from the implementation of a transition program, as calculated by statute, to be transferred from the Revolving Fund to the Transition Program Fund. The monies transferred were from a portion of liquor tax revenues.

3 Professional and outside services expenditures were primarily for obtaining transitional services for nonviolent drug offenders.

4 The transfer to the State Automation Projects Fund in fiscal year 2017 was made in accordance with Laws 2016, Ch. 117, §130(C)&(D).

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for July 1, 2015 through December 31, 2019; State of Arizona *Annual Financial Report* for fiscal years 2016 through 2019; and Department-provided information.

State Charitable, Penal and Reformatory Institutions Land Fund

The State Charitable, Penal and Reformatory Institutions Land Fund is an appropriated fund established by A.R.S. §37-525. The Department is 1 of 3 beneficiaries that receive proceeds from specific lands granted to the State by the United States, property donated by individuals for like purposes, and the sale of natural products or property from lands granted or donated, in accordance with statute. Fund monies can be used for the Department's benefit and support.

As shown in Table 20, the fund received rental and investment income during fiscal years 2016 through 2019 from lands granted to the State. In those years, the Department primarily spent fund monies for medical services and institutional care paid to Arizona counties for housing inmates. The Department also spent fund monies for inmate food in fiscal years 2018 and 2019. Additionally, the Department was required to transfer fund monies in fiscal years 2017 and 2018 to the Corrections Fund, State Automation Projects Fund, and the Arizona Criminal Justice Commission, in accordance with various laws.

Table 20
Schedule of State Charitable, Penal and Reformatory Institutions Land Fund revenues, expenditures, transfers, and changes in fund balance
Fiscal years 2016 through 2019
(Unaudited)

	2016	2017	2018	2019
Revenues				
Investment income	$1,929,925	$2,115,164	$2,268,642	$2,422,923
Rental income	763,770	614,445	636,317	446,410
Total revenues	**2,693,695**	**2,729,609**	**2,904,959**	**2,869,333**
Expenditures and transfers out				
Professional and outside services				
Medical services	1,500,000	1,500,000	1,500,000	1,500,000
Institutional care[1]	357,342	361,209	368,543	379,648
Total professional and outside services	1,857,342	1,861,209	1,868,543	1,879,648
Inmate food and related			789,693	781,420
Other operating				
Repair and maintenance				94,421
Books and subscriptions				44,980
Operating supplies				15,237
Information technology services	1,165			
Total other operating	1,165			154,638
Capital and noncapital purchases – furniture and equipment				260,037
Total expenditures	1,858,507	1,861,209	2,658,236	3,075,743
Transfers to the Corrections Fund[2]		500,000		
Transfers to the State Automation Projects Fund[2]		1,016,100		
Transfers to other State agencies[3]			1,000,000	500,000
Total transfers		1,516,100	1,000,000	500,000
Total expenditures and transfers	**1,858,507**	**3,377,309**	**3,658,236**	**3,575,743**
Net change in fund balance	835,188	(647,700)	(753,277)	(706,410)
Fund balance, beginning of year	3,600,263	4,435,451	3,787,751	3,034,474
Fund balance, end of year	**$4,435,451**	**$3,787,751**	**$3,034,474**	**$2,328,064**

1 Institutional care expenditures were payments to Arizona counties for housing inmates.

2 Transfers to the Corrections Fund and State Automation Projects Fund in fiscal year 2017 were required by Laws 2016, Ch. 117, §§130(C)&(D), 158(B)(8), and 160(3).

3 The fiscal year 2018 transfer was to the Arizona Criminal Justice Commission as required by Laws 2017, Ch. 286. The fiscal year 2019 transfer was to ADOA for transfer to Yavapai County as required by Laws 2018, Ch. 342.

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for July 1, 2015 through December 31, 2019; State of Arizona *Annual Financial Report* for fiscal years 2016 through 2019; and Department-provided information.

Penitentiary Land Fund

The Penitentiary Land Fund is an appropriated fund established by A.R.S. §37-525. Similar to the State Charitable, Penal and Reformatory Institutions Land Fund shown in Table 20 (page a-18), the Department receives proceeds from specific lands granted to the State by the United States, property donated by individuals for like purposes, and the sale of natural products or property from lands granted or donated, in accordance with statute; however, the lands in the trust are different than the lands in the State Charitable, Penal and Reformatory Institutions Land Fund, and the Department is the only beneficiary of these monies. Fund monies can be used for the Department's benefit and support.

As shown in Table 21, the fund received rental and investment income during fiscal years 2016 through 2019 from lands granted to the State. In those years, the Department primarily spent fund monies for institutional care paid to private prison providers. Additionally, the Department was required to transfer fund monies in fiscal years 2017 and 2018 to the Corrections Fund, State Automation Projects Fund, and the Arizona Criminal Justice Commission, in accordance with various laws.

Table 21
Schedule of Penitentiary Land Fund revenues, expenditures, transfers, and changes in fund balance
Fiscal years 2016 through 2019
(Unaudited)

	2016	2017	2018	2019
Revenues				
Rental income	$1,306,976	$1,211,040	$1,174,360	$1,196,264
Investment income	929,080	1,061,303	1,188,083	1,330,827
Total revenues	**2,236,056**	**2,272,343**	**2,362,443**	**2,527,091**
Expenditures and transfers out				
Payroll and related benefits				218,704
Professional and outside services – institutional care[1]	979,200	979,200	2,031,750	2,062,500
Inmate food and related				80,400
Other operating		100		
Total expenditures	979,200	979,300	2,031,750	2,361,604
Transfers to the Corrections Fund[2]		400,000		
Transfers to the State Automations Projects Fund[2]		1,000,200		
Transfers to the Arizona Criminal Justice Commission[3]			1,000,000	
Total transfers		1,400,200	1,000,000	
Total expenditures and transfers	**979,200**	**2,379,500**	**3,031,750**	**2,361,604**
Net change in fund balance	1,256,856	(107,157)	(669,307)	165,487
Fund balance, beginning of year	2,418,406	3,675,262	3,568,105	2,898,798
Fund balance, end of year	**$3,675,262**	**$3,568,105**	**$2,898,798**	**$3,064,285**

1 Institutional care expenditures were payments to private prison providers.

2 Transfers to the Corrections Fund and State Automation Projects Fund in fiscal year 2017 were required by Laws 2016, Ch. 117, §§130(C)&(D), 158(B)(9), and 160(5).

3 The transfer to the Arizona Criminal Justice Commission in fiscal year 2018 was required by Laws 2017, Ch. 286.

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for July 1, 2015 through December 31, 2019; State of Arizona *Annual Financial Report* for fiscal years 2016 through 2019; and Department-provided information.

Interagency Services Agreement Fund

The Interagency Services Agreement (ISA) Fund is a nonappropriated fund allowed by A.R.S. §35-131(H). The fund is used to account for the Department's ISAs with other State agencies. In fiscal years 2016 through 2019, the Department's primary ISA was with ADOA for the replacement of its Adult Inmate Management System (AIMS), which is an automated system that maintains comprehensive information about all inmates, such as custody classification, scheduled hearing dates, and inmate trust account banking transactions. As shown in Table 22, the Department received monies from the State Automation Projects Fund to pay for the AIMS replacement, and most of the expenditures in fiscal years 2016 through 2018 were used to pay for those costs. Although the fund paid for all costs related to the AIMS replacement prior to fiscal year 2018, the Department began using its General Fund to help pay for the AIMS replacement in fiscal year 2018.

Table 22
Schedule of Interagency Services Agreement Fund revenues, expenditures, transfers, and changes in fund balance
Fiscal years 2016 through 2019
(Unaudited)

	2016	2017	2018	2019
Revenues				
State Automation Projects Fund[1]	$4,239,382	$8,068,088	$955,000	$2,367,800
Intergovernmental	41,549	61,700	70,754	62,108
Total revenues	**4,280,931**	**8,129,788**	**1,025,754**	**2,429,908**
Expenditures and transfers				
Payroll and related benefits	505,053	553,050	552,992	36,875
Professional and outside services[2]	40,036	699,738	614,925	
Travel[3]		47,401	94,784	
Other operating				
Operating supplies	5,075	2,732	3,839	12,292
Repair and maintenance				
Software support and maintenance	11,129	149,206	2,517	
Computer equipment	11,251			
Information technology services	1,212	28,023		
Other	550	3,027	2,904	1,401
Total other operating	29,217	182,988	9,260	13,693
Capital and noncapital purchases				
Equipment			14,499	7,928
Adult Inmate Management System replacement[1]	4,371,826	4,593,609	1,584,937	
Other		2,926		
Total capital and noncapital purchases	4,371,826	4,596,535	1,599,436	7,928
Total expenditures	4,946,132	6,079,712	2,871,397	58,496
Transfers to the Indirect Cost Recovery Fund				1,495
Total expenditures and transfers	**4,946,132**	**6,079,712**	**2,871,397**	**59,991**
Net change in fund balance	(665,201)	2,050,076	(1,845,643)	2,369,917
Fund balance, beginning of year	1,981,473	1,316,272	3,366,348	1,520,705
Fund balance, end of year	**$1,316,272**	**$3,366,348**	**$1,520,705**	**$3,890,622**

1 The Department received monies from the State Automation Projects Fund to replace AIMS. Expenditures for replacing AIMS are broken out for capital and noncapital purchases but not for other expenditure categories, such as payroll and related benefits, professional and outside services, travel, and other operating expenditures. In addition, beginning in fiscal year 2018, the Department's General Fund also paid for a portion of AIMS replacement costs. As of June 30, 2019, AIMS replacement expenditures were approximately $16.5 million.

2 Professional and outside services expenditures in fiscal years 2017 and 2018 were primarily for acquiring information technology and temporary staffing services.

3 The Department reported that it paid for travel associated with the testing of and staff training on the system replacing AIMS.

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for July 1, 2015 through December 31, 2019; State of Arizona *Annual Financial Report* for fiscal years 2016 through 2019; and Department-provided information.

Indirect Cost Recovery Fund

The Indirect Cost Recovery Fund is a nonappropriated fund allowed by A.R.S. §35-131(H). The fund is used to account for the Department's monies obtained from federal grants and other agreements that allow for recovery of indirect costs. As shown in Table 23, during fiscal years 2016 through 2019, the fund primarily received federal grant revenues for the administrative portion of the State Criminal Alien Assistance Program (SCAAP) federal grant. SCAAP monies may be used for specific types of expenditures, including construction for inmate housing, programs, and Americans with Disabilities Act requirements; inmate training and education; correctional officer training; medical services; correctional officer salaries; and technology. The fund also received transfers from the Department's Federal Grant Fund for the administrative portion of federal programs. Monies from other grants deposited in the fund may be used for Department-wide and administrative overhead costs.

As shown in Table 23, the Department spent fund monies for payroll and related benefits in fiscal years 2016 through 2019. In fiscal year 2018, the Department also used fund monies to acquire medical management consultants. In fiscal year 2019, the Department spent more fund monies for building issues, such as addressing damage from a Winslow prison fire and obtaining modular office buildings. In addition, in fiscal year 2019, State laws transferred monies from the fund to the State General Fund.

Table 23
Schedule of Indirect Cost Recovery Fund revenues, expenditures, transfers, and changes in fund balance
Fiscal years 2016 through 2019
(Unaudited)

	2016	2017	2018	2019
Revenues and transfers in				
Federal grants[1]	$455,673	$497,017		$508,625
Transfers from the Federal Grants Fund[2]	45,511		$68,162	146,991
Transfers from the Interagency Services Agreement Fund				1,495
Total revenues and transfers in	**501,184**	**497,017**	**68,162**	**657,111**
Expenditures and transfers out				
Payroll and related benefits	17,650	17,452	15,840	22,320
Professional and outside services[3]			178,779	1,243
Travel		38		203
Other operating				
Plumbing supplies			61,233	
Repair and maintenance		7,364	42,480	
Information technology services	568			
Total other operating	568	7,364	103,713	
Capital and noncapital purchases				
Building improvements[4]			95,806	254,736
Equipment		18,419		
Total capital and noncapital purchases		18,419	95,806	254,736
Total expenditures	18,218	43,273	394,138	278,502
Transfers to the State General Fund[5]				500,000
Total expenditures and transfers out	**18,218**	**43,273**	**394,138**	**778,502**
Net change in fund balance	482,966	453,744	(325,976)	121,391
Fund balance, beginning of year	2,592,652	3,075,618	3,529,362	3,203,386
Fund balance, end of year	**$3,075,618**	**$3,529,362**	**$3,203,386**	**$3,081,995**

1 Federal Grants revenues were the administrative portion of the SCAAP grant. Specifically, the Department received monies in fiscal years 2016, 2017, and 2019 from the U.S. Department of Justice SCAAP grant, which provides federal payments to states and localities that incur correctional officer costs for incarcerating undocumented criminal aliens with at least 1 felony or 2 misdemeanor convictions for violations of state or local laws, and who were incarcerated for at least 4 consecutive days. The Department remits to the State General Fund the State's portion of the grant and deposits the administrative portion of the grant in the fund (see Table 11, footnote 1, pages a-2 through a-3, for additional information). Although the Department was awarded SCAAP grant monies for each fiscal year, the timing of the awards is determined by the U.S. Department of Justice. The table reflects when the monies were received, and no monies were received during fiscal year 2018.

Table 23 continued

[2] Transfers from the Federal Grant Fund were for the administrative portion of federal programs.

[3] Professional and outside services expenditures in fiscal year 2018 were primarily for obtaining medical management consultants.

[4] Building improvements were for various projects such as addressing issues related to roofing, asbestos and lead abatement, and unreimbursed fire damage costs at the Winslow prison. The Department received approximately $557,000 from State Risk Management for the Winslow prison fire loss during fiscal year 2020; therefore, only the approximately $54,300 of unreimbursed costs are included in building improvements expenditures in the table. The building improvements expenditures in the table also included obtaining modular office buildings.

[5] Transfers to the State General Fund were made in accordance with Laws 2018, Ch. 276, §140(5).

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for July 1, 2015 through December 31, 2019; State of Arizona *Annual Financial Report* for fiscal years 2016 through 2019; and Department-provided information.

State Education Fund for Correctional Education

The State Education Fund for Correctional Education is an appropriated fund established by A.R.S. §15-1372. As shown in Table 24, the fund receives State equalization monies for students attending Department education programs. The monies may be spent to provide educational services for pupils under the age of 18 and for pupils with disabilities under the age of 22 who are committed to Department custody. During fiscal years 2016 through 2019, fund monies were primarily spent on payroll and related benefits for Department employees who work with the education programs. Specifically, according to the Department, the fund pays for the salaries and related benefits of (1) teachers with special education certification who provide educational services to inmates with disabilities who are under the age of 22 and (2) certified high school teachers in specific content areas, such as mathematics, science, and English, to inmates who are under the age of 18 and housed at the Tucson complex.

Table 24

Schedule of State Education Fund for Correctional Education revenues, expenditures, and changes in fund balance

Fiscal years 2016 through 2019

(Unaudited)

	2016	2017	2018	2019
Revenues				
State equalization[1]	**$520,741**	**$680,632**	**$720,847**	**$484,905**
Expenditures				
Payroll and related benefits	394,037	609,936	667,707	726,026
Other operating	505			
Total expenditures	**394,542**	**609,936**	**667,707**	**726,026**
Net change in fund balance	126,199	70,696	53,140	(241,121)
Fund balance, beginning of year	797,645	923,844	994,540	1,047,680
Fund balance, end of year	**$923,844**	**$994,540**	**$1,047,680**	**$806,559**

[1] State equalization revenue is monies the Department receives from the Arizona Department of Education for pupils attending the Department's education programs.

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for July 1, 2015 through December 31, 2019; State of Arizona *Annual Financial Report* for fiscal years 2016 through 2019; and Department-provided information.

Alcohol Abuse Treatment Fund

The Alcohol Abuse Treatment Fund is an appropriated fund established by A.R.S. §31-255. The fund receives a portion of wages earned by inmates convicted of driving-under-the-influence (DUI) offenses. The monies should be spent to provide alcohol abuse treatment and rehabilitation services to inmates. As shown in Table 25, during fiscal years 2016 through 2019, the monies were primarily spent to obtain professional and outside services related to alcohol and substance abuse treatment. In addition, in fiscal years 2016 and 2017, State laws transferred monies from the fund to the State General Fund and the State Automation Projects Fund, respectively.

Table 25

Schedule of Alcohol Abuse Treatment Fund revenues, expenditures, transfers, and changes in fund balance

Fiscal years 2016 through 2019

(Unaudited)

	2016	2017	2018	2019
Revenues				
Inmate wages[1]	**$426,684**	**$470,363**	**$484,490**	**$450,016**
Expenditures and transfers				
Professional and outside services[2]	280,358	329,381	555,500	482,765
Other operating[3]	929	11,916		
Noncapital purchases – equipment				743
Total expenditures	281,287	341,297	555,500	483,508
Transfers to the State General Fund[4]	250,000			
Transfers to the State Automation Projects Fund[4]		21,200		
Total expenditures and transfers out	**531,287**	**362,497**	**555,500**	**483,508**
Net change in fund balance	(104,603)	107,866	(71,010)	(33,492)
Fund balance, beginning of year	1,228,848	1,124,245	1,232,111	1,161,101
Fund balance, end of year	**$1,124,245**	**$1,232,111**	**$1,161,101**	**$1,127,609**

1 Inmate wages were monies inmates paid to the fund in accordance with A.R.S. §31-255. Specifically, inmates convicted of DUI offenses must pay the lesser of $0.50 per hour or 67 percent of wages earned to the fund.

2 Professional and outside services expenditures were primarily for behavioral health services. For example, in fiscal year 2019, fund monies paid for various behavioral health programs related to alcohol and substance abuse such as alcohol and substance abuse treatment and educational services, transitional services for nonviolent offenders, and community outpatient substance abuse treatment programs.

3 Other operating expenditures were for information technology services in fiscal year 2016 and for education and training and operating supplies costs in fiscal year 2017.

4 Transfers to the State General Fund and the State Automation Projects Fund in fiscal years 2016 and 2017 were made in accordance with Laws 2015, Ch. 8, §133(5), and Laws 2016, Ch. 117, §130(C)&(D), respectively.

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for July 1, 2015 through December 31, 2019; State of Arizona *Annual Financial Report* for fiscal years 2016 through 2019; and Department-provided information.

Community Corrections Enhancement Fund

The Community Corrections Enhancement Fund is a nonappropriated fund established by A.R.S. §31-418. The fund receives various fees paid by offenders under community corrections in accordance with statute (see Chapter 3, pages 28 through 29, for additional information). For example, A.R.S. §§31-411, 31-418, 31-467.06, 41-1604.08, and 41-1604.13 require or permit the following fees to be collected and deposited into the fund:

- A monthly community supervision fee of at least $65 must be assessed, or a reduced fee if the inmate is unable to pay the full fee, and 30 percent of the monies must be deposited into the fund.[54]
- Drug testing fees may be assessed for persons that participate in a drug testing program as a condition of their release.[55]
- Persons assigned a global position monitoring system (GPS) may be assessed a fee for the monitoring.[56]

In addition, the Department charges a $200 application fee to offenders who apply to be transferred to and supervised by another state, as allowed by the Interstate Compact for the Supervision of Adult Offenders. Monies collected for this fee are also deposited into the Community Corrections Enhancement Fund.

Fund monies can be spent to pay for related community corrections costs, including drug testing and GPS monitoring. As shown in Table 26, the types and amounts of expenditures varied each year in fiscal years 2016 through 2019. For example, the Department spent more fund monies on other operating expenditures, such as operating supplies and telecommunications, in fiscal year 2016 compared to the other years, and it spent more fund monies on professional and outside services, such as electronic monitoring services, in fiscal year 2019 compared to the other years. Capital and noncapital purchases, such as acquiring equipment and vehicles, was the largest category of expenditures in 3 of the 4 fiscal years.

Table 26
Schedule of Community Corrections Enhancement Fund revenues, expenditures, transfers, and changes in fund balance
Fiscal years 2016 through 2019
(Unaudited)

	2016	2017	2018	2019
Revenues				
Supervision fees	$354,440	$560,819	$423,763	$345,041
Expenditures and transfers out				
Professional and outside services				
Electronic monitoring services				106,605
Automated reporting call-in system services				30,000
Medical services				3,697
Risk assessment validation study[1]	38,000			
Other	400		129	10,232
Total professional and outside services	38,400		129	150,534
Travel	16,254	9,076	13,449	28,309
Other operating				
Operating supplies	88,619	20,792	65,400	28,122
Employee education and training	10,734	14,677	8,775	19,735
Repair and maintenance	3,043	1,980		19,169

[54] Statute requires the Department to deposit 70 percent of the fees collected into the ACJC's Victim Compensation and Assistance Fund.

[55] According to Department staff, the Department does not charge any drug testing fees.

[56] According to Department staff, the Department only charges electronic monitoring fees/GPS fees when offenders can afford to pay them, which is not often.

Table 26 continued

	2016	2017	2018	2019
Dues	500		7,163	14,326
Employee conference attendance fees	3,718	4,855	5,005	14,203
Information technology services	40,823	300	229	1,000
Rent	16,864			
Other	12,825	9,354	4,110	1,318
Total other operating	177,126	51,958	90,682	97,873
Capital and noncapital purchases				
Equipment	12,451	168,814	64,923	101,695
Vehicles	81,418	27,835	72,784	66,409
Weapons	5,098	13,201	2,459	43,655
Furniture		137,733	17,631	32,851
Other		686		
Total capital and noncapital purchases	98,967	348,269	157,797	244,610
Total expenditures	330,747	409,303	262,057	521,326
Transfers to the State Automation Projects Fund[2]		7,900		
Total expenditures and transfers out	**330,747**	**417,203**	**262,057**	**521,326**
Net change in fund balance	23,693	143,616	161,706	(176,285)
Fund balance, beginning of year	192,546	216,239	359,855	521,561
Fund balance, end of year	**$216,239**	**$359,855**	**$521,561**	**$345,276**

[1] The risk assessment validation study was conducted by the University of Cincinnati Corrections Institute to evaluate the validity and reliability of the Department's field reassessment offender screening tool. The tool was adopted to ensure offenders' successful reentry and supervision after their release from prison to the community.

[2] The transfer to the State Automation Projects Fund in fiscal year 2017 was required by Laws 2016, Ch. 117, §130(C)&(D).

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for July 1, 2015 through December 31, 2019; State of Arizona *Annual Financial Report* for fiscal years 2016 through 2019; and Department-provided information.

Risk Management Revolving Fund

The Department's Risk Management Revolving Fund is an appropriated fund authorized by A.R.S. §41-622. As shown in Table 27, in fiscal years 2016 through 2019, the fund received monies from the State's Risk Management Revolving Fund for losses the Department incurred. Fund monies were used to pay for repairs and replacement of property related to these losses. For example, in fiscal year 2016, the Department paid over $400,000 to repair 21 broken power lines snapped by a strong burst of wind.

Table 27
Schedule of Risk Management Revolving Fund revenues, expenditures, and changes in fund balance
Fiscal years 2016 through 2019
(Unaudited)

	2016	2017	2018	2019
Revenues				
State Risk Management Revolving Fund payments[1]	$1,120,485	$300,140	$1,086,291	$ 60,846
Other			73,756	
Total revenues	**1,120,485**	**300,140**	**1,160,047**	**60,846**
Expenditures				
Other operating				
Repair and maintenance	527,255	132,678	52,397	65,690
Operating supplies	401,571	57,656	397,793	19,709
Information technology services	1,027		7,481	
Other	1,148		5,211	5,400
Total other operating	931,001	190,334	462,882	90,799
Capital and noncapital purchases				
Building improvements			293,790	169,149
Vehicles	71,929	45,546	21,334	42,979
Equipment	166,517	23,661	45,633	
Total capital and noncapital purchases	238,446	69,207	360,757	212,128
Total expenditures	**1,169,447**	**259,541**	**823,639**	**302,927**
Net change in fund balance	(48,962)	40,599	336,408	(242,081)
Fund balance, beginning of year	99,280	50,318	90,917	427,325
Fund balance, end of year	**$ 50,318**	**$ 90,917**	**$ 427,325**	**$185,244**

[1] The Department received payments from the State's Risk Management Revolving Fund for losses it incurred. ADOA manages the State's Risk Management Revolving Fund and is responsible for investigating, evaluating, negotiating, and settling claims for State property, vehicles, and liability claims. The amount does not include approximately $557,000 the Department received from State Risk Management in fiscal year 2020 for Winslow prison fire loss expenditures incurred in fiscal year 2019 that were partially paid from and accounted for in the Indirect Cost Recovery Fund, nor are the related building improvements expenditures included in this table (see Table 23, footnote 4, pages a-21 through a-22, for additional information).

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for July 1, 2015 through December 31, 2019; State of Arizona *Annual Financial Report* for fiscal years 2016 through 2019; and Department-provided information.

Employee Recognition Fund

The Employee Recognition Fund is a nonappropriated fund authorized by A.R.S. §41-709 and is used to account for gifts and donations from public and private entities or individuals used for employee recognition programs. As shown in Table 28, the Fund had been inactive and only became active in fiscal year 2019. Fund revenues were primarily from fundraising activities, and expenditures were primarily for obtaining fundraising supplies and providing employee awards and recognition.

Table 28
Schedule of Employee Recognition Fund revenues, expenditures, and changes in fund balance
Fiscal year 2019[1]
(Unaudited)

	2019
Revenues	
Fundraising and donated revenues[2]	**$102,917**
Expenditures	
Food and other operating expenditures[3]	**55,590**
Net change in fund balance	47,327
Fund balance, beginning of year	156
Fund balance, end of year	**$ 47,483**

[1] The Employee Recognition Fund was not active during fiscal years 2016 through 2018; therefore, these fiscal years are not presented.

[2] Fundraising and donated revenues were primarily obtained from various fundraising activities such as blue jean Friday, military support food sales, art auction, and car washes.

[3] Food and other operating expenditures were spent for various purposes such as obtaining supplies for fundraising activities and providing awards and recognition for employees.

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for July 1, 2015 through December 31, 2019; State of Arizona *Annual Financial Report* for fiscal years 2016 through 2019; and Department-provided information.

Donations Fund

The Donations Fund is a nonappropriated fund established by A.R.S. §41-1605 to account for private grants and gifts. Fund monies may be spent for any general purposes in line with any donor restrictions on the revenues. As shown in Table 29, the Department received a private grant for fire equipment in fiscal years 2016 and 2017 and donations in fiscal years 2016 through 2018, but it did not receive donations in fiscal year 2019. During fiscal years 2016 through 2018, fund monies were primarily spent on fire equipment and high school equivalency diploma testing for inmates.

Table 29
Schedule of Donations Fund revenues, expenditures, and changes in fund balance
Fiscal years 2016 through 2019
(Unaudited)

	2016	2017	2018	2019
Revenues				
Private grants[1]	$17,000	$11,479		
Donations	3,530	7,500	$ 72	
Total revenues	**20,530**	**18,979**	**72**	
Expenditures				
Professional and outside services				
Education and training		462	583	
High school equivalency diploma testing	3,975	2,063		
Capital and noncapital purchases – fire equipment[1]	17,000	11,479		
Total expenditures	**20,975**	**14,004**	**583**	
Net change in fund balance	(445)	4,975	(511)	
Fund balance, beginning of year	1,890	1,445	6,420	$5,909
Fund balance, end of year	**$ 1,445**	**$ 6,420**	**$5,909**	**$5,909**

1 The Department received a private grant from a private organization to acquire fire equipment.

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for July 1, 2015 through December 31, 2019; State of Arizona *Annual Financial Report* for fiscal years 2016 through 2019; and Department-provided information.

Examples of Department contracts

As shown in Table 1 in the Introduction (see pages 2 through 3), the Department spent more than $340 million annually on professional and outside services and food services contracts in fiscal years 2016 through 2019. Table 30 provides examples and associated information of Department-contracted services.

Table 30
Examples of Department-contracted services[1]
Fiscal year 2019

<table>
<tr><th>Vendor</th><th>Contracted service</th><th>Expenditures</th><th>Funds used for contract payments
(listed in order of amount used, highest to lowest)</th></tr>
<tr><td colspan="4">Inmate healthcare</td></tr>
<tr><td>Corizon, Inc.[2]</td><td>Health services for inmates including dental, pharmacy, and mental health services</td><td>$165,262,387</td><td>• General Fund
• Prison Construction and Operations Fund
• State Charitable, Penal and Reformatory Institutions Land Fund</td></tr>
<tr><td colspan="4">Private prisons and prison management</td></tr>
<tr><td rowspan="4">The GEO Group, Inc.</td><td>Prison management—Kingman</td><td>$48,537,007</td><td>• General Fund
• Corrections Fund
• Penitentiary Land Fund</td></tr>
<tr><td>Private Prison—Central Arizona Correctional Facility</td><td>25,303,124</td><td>• Corrections Fund
• General Fund</td></tr>
<tr><td>Private Prison—Florence West</td><td>11,869,999</td><td>• General Fund
• Corrections Fund</td></tr>
<tr><td>Private Prison—Phoenix West</td><td>7,444,468</td><td>• General Fund
• Corrections Fund</td></tr>
<tr><td>CoreCivic, Inc.</td><td>Private prison—Red Rock</td><td>46,662,776</td><td>• General Fund
• Corrections Fund
• Penitentiary Land Fund</td></tr>
<tr><td>Management and Training Corporation</td><td>Prison management—Marana</td><td>8,427,451</td><td>• General Fund
• Corrections Fund</td></tr>
<tr><td colspan="4">Food services</td></tr>
<tr><td rowspan="3">Trinity Services Group, Inc.</td><td>Food services management for all institutions[3]</td><td>$39,798,983</td><td>• General Fund
• Corrections Fund
• State Charitable, Penal and Reformatory Institutions Land Fund
• Revolving Fund
• Penitentiary Land Fund</td></tr>
<tr><td>Food service management for the Correctional Officer Training Academy</td><td>349,119</td><td>• General Fund</td></tr>
<tr><td>Food service management at the minor unit at the Tucson prison complex</td><td>64,764</td><td>• General Fund
• Revolving Fund</td></tr>
</table>

Table 30 continued

Vendor	Contracted service	Expenditures	Funds used for contract payments (listed in order of amount used, highest to lowest)
Rehabilitation and counseling services			
ViVRE	Residential and programming services for offenders	$2,081,573	• Special Services Fund
Sage Counseling, Inc.	90-day post release transitional services for nonviolent offenders	1,543,586	• Transition Program Fund • Alcohol Abuse Treatment Fund • Community Corrections Enhancement Fund
	Community outpatient substance abuse treatment program for male and female offenders in Coconino, Mohave, and Yavapai Counties	279,365	• Alcohol Abuse Treatment Fund • General Fund • Revolving Fund • Transition Program Fund
	Onsite alcohol and substance abuse treatment and educational services for females convicted of DUI at the Perryville prison complex	56,370	• Alcohol Abuse Treatment Fund
Behavioral Systems Southwest, Inc.	Residential community behavior modification program for offenders in the Tucson metropolitan area	362,627	• Revolving Fund • General Fund
Educational and vocational training			
Maricopa Community College District	Vocational and elective educational programs at the Perryville prison complex	$535,020	• Special Services Fund
	Graduate equivalency degree and adult basic education instruction at the Lewis and Perryville prison complexes	366,077	• Special Services Fund
Pinal County Community College District (Central Arizona College)	Vocational and elective educational programs at the Florence prison complex	498,479	• Special Services Fund • General Fund • Federal Grant Fund
	Vocational and elective educational programs at the Eyman prison complex	291,929	• Special Services Fund • General Fund
Yuma/La Paz Counties Community College District (Arizona Western College)	Vocational and elective educational programs at the Yuma prison complex	446,861	• Special Services Fund
Pima County Community College District	Vocational and elective educational programs at the Tucson prison complex	418,526	• Special Services Fund • General Fund
Graham County Community College District (Eastern Arizona College)	Vocational and elective educational programs at the Safford prison complex	340,358	• Special Services Fund
Cochise County Community College District (Cochise College)	Vocational and elective education programs at the Douglas prison complex	251,349	• Special Services Fund
Navajo County Community College District (Northland Pioneer College)	Vocational and elective educational programs at the Winslow prison complex	142,885	• Special Services Fund

1 The table does not include examples of contracts with ACI labor partners, such as Hickman's Egg Ranch, Inc. and Common Market Equipment Company Inc. (also known as Swift), which are discussed in Chapter 3, pages 20 through 24.

2 During fiscal year 2019, the Department withheld $1,455,000 in payment to Corizon, Inc. as reimbursement for a court-ordered judgment the Department paid in fiscal year 2018 for violations of a settlement agreement related to inmate healthcare. Because the Department was reimbursed for this expenditure, it is not reflected in any of the financial tables in this report. Additionally, beginning in fiscal year 2020, the Department contracted with Centurion of Arizona, LLC, to provide inmate healthcare services.

3 Amount includes approximately $183,600 paid for food at the Department's reentry centers.

Source: Auditor General staff review of contract documents and analysis of the Arizona Financial Information System *Accounting Event Transaction File* for fiscal year 2019 and Department-provided information.

Department funds that contribute monies to the Building Renewal Fund and/or can be used for capital needs

As discussed in Chapter 1 (see page 10), monies in 7 Department funds other than the Building Renewal Fund can be for used capital projects. However, the monies available in these funds are limited because the Department has used them for other purposes consistent with their authorizing statutes or other State laws and their combined fund balance is declining. Table 31 summarizes information about these 7 funds. See Appendix A, pages a-1 through a-29, for more detailed information about each fund.

Table 31

Summary information about 7 Department funds that contribute monies to the Building Renewal Fund and/or can be used for capital needs[1]

Fiscal years 2016 through 2021

(In millions)

(Unaudited)

One Department fund contributes monies to the Building Renewal Fund and was established to help pay for capital needs

Corrections Fund—An appropriated fund that receives a portion of luxury taxes on alcohol and tobacco products. May be used for capital-related expenses, including maintenance, construction, renovation, and leasing of corrections facilities with legislative approval. Per statute, $2.5 million is transferred annually to the Building Renewal Fund.

	Actual				Estimate	
	2016	2017	2018	2019	2020	2021
Revenues/Transfers in	$32.81	$34.24	$31.97	$32.16	$32.07	$32.07
Expenditures/Transfers out	29.37	31.50	31.46	33.13	33.39	37.39
Fund balance	**$ 7.15**	**$ 9.89**	**$10.40**	**$ 9.43**	**$ 8.11**	**$ 2.79**

Department uses during fiscal years 2016 through 2019:
Primarily to pay private prison providers.

State-directed uses during fiscal years 2016 through 2019:
$12 million appropriated for Department operating expenses and used for inmate food services.
$2.75 million transferred to State General Fund to support State agencies.
$6,800 transferred to State Automation Projects Fund to contribute to replacing the State's procurement system.

Table 31 continued

Three Department funds contribute monies to the Building Renewal Fund but were not otherwise established to help pay for capital needs

Arizona Correctional Industries Revolving Fund—A nonappropriated fund created to account for Arizona Correctional Industries operations, which operates as a business. Per statute, $1 million is transferred annually to the Building Renewal Fund.

	Actual				Estimate	
	2016	2017	2018	2019	2020	2021
Revenues	$42.19	$42.34	$43.68	$48.85	$42.80	$46.10
Expenditures/Transfers out	39.81	46.71	36.41	50.17	50.09	50.00
Fund balance	**$ 9.38**	**$ 5.01**	**$12.28**	**$10.96**	**$ 3.67**	**$ (0.23)**

Department uses during fiscal years 2016 through 2019:
To operate Arizona Correctional Industries.

State-directed uses during fiscal years 2016 through 2019:
$2 million transferred to State General Fund to support State agencies.
$1 million transferred to State Automation Projects Fund for replacing the Department's Adult Inmate Management System.
$6.5 million transferred to ADOA for upgrades to Lewis and Yuma prison complexes.
$73,700 transferred to State Automation Projects Fund to contribute to replacing the State's procurement system.

Inmate Store Proceeds Fund—A nonappropriated fund that receives revenues primarily from the sale of goods in the Department's prison commissaries. Per statute, $500,000 is transferred annually to the Building Renewal Fund. Remaining fund monies can be used for inmate activities, incentive pay increases for corrections officers, equipment to enhance safety for Department personnel and inmates, and other official needs (this could include capital needs).

	Actual				Estimate	
	2016	2017	2018	2019	2020	2021
Revenues/Transfers in	$6.00	$7.03	$5.92	$7.45	$6.92	$7.20
Expenditures/Transfers out	7.60	7.06	4.28	8.18	7.30	7.21
Fund balance	**$3.44**	**$3.41**	**$5.05**	**$4.32**	**$3.94**	**$3.93**

Department uses during fiscal years 2016 through 2019:
Primarily to pay for operating supplies such as janitorial and maintenance supplies, block ice, and audio-visual equipment, as well as satellite television services.

State-directed uses during fiscal years 2016 through 2019:
$2.5 million transferred to State General Fund to support State agencies.
$1 million transferred to State Automation Projects Fund for replacing the Department's Adult Inmate Management System.
$750,000 transferred to county attorneys for felony pretrial intervention programs.
$3.5 million transferred to ADOA for upgrades to Lewis and Yuma prison complexes.
$353,500 transferred to State Automation Projects Fund to contribute to replacing the State's procurement system.

Table 31 continued

Special Services Fund—A nonappropriated fund that receives revenues primarily from the sale of phone minutes to inmates. Per statute, $500,000 is transferred annually to the Building Renewal Fund. Remaining monies may be used for inmates' benefit, education, and welfare and for technologies and programs for inmate use.

	Actual				Estimate	
	2016	2017	2018	2019	2020	2021
Revenues/Transfers in	$5.19	$8.27	$7.75	$8.96	$10.27	$ 9.94
Expenditures/Transfers out	5.86	8.64	6.09	9.16	12.65	12.71
Fund balance	**$7.58**	**$7.21**	**$8.87**	**$8.67**	**$ 6.29**	**$ 3.52**

Department uses during fiscal years 2016 through 2019:
Primarily to pay for inmate education and training, recovery housing, behavior modification programs, and satellite television services.

State-directed uses during fiscal years 2016 through 2019:
$3 million transferred to State General Fund to support State agencies.
$4 million transferred to State Automation Projects Fund for replacing the Department's Adult Inmate Management System.

Three Department funds do not contribute monies to the Building Renewal Fund but can be used for capital needs

Penitentiary Land Fund—An appropriated fund that receives proceeds from federally granted lands, donated properties, and sale of products or property from these lands. May be used for the Department's benefit and support (this could include capital needs).

	Actual				Estimate	
	2016	2017	2018	2019	2020	2021
Revenues/Transfers in	$2.24	$2.27	$2.36	$2.53	$3.00	$2.60
Expenditures/Transfers out	0.98	2.38	3.03	2.36	2.76	4.78
Fund balance	**$3.68**	**$3.57**	**$2.90**	**$3.07**	**$3.31**	**$1.13**

Department uses during fiscal years 2016 through 2019:
Primarily to pay private prison providers.

State-directed uses during fiscal years 2016 through 2019:
$1 million transferred to State Automation Projects Fund for replacing the Department's Adult Inmate Management System.
$1 million transferred to county attorneys for felony pretrial intervention programs.
$200 transferred to State Automation Projects Fund to contribute to replacing the State's procurement system.

Prison Construction and Operations Fund—An appropriated fund that receives assessments charged to persons convicted of under-the-influence offenses. May be used for any costs related to prison overcrowding and Department support and maintenance (this could include capital needs).

	Actual				Estimate	
	2016	2017	2018	2019	2020	2021
Revenues/Transfers in	$11.92	$11.29	$10.52	$10.35	$10.20	$10.40
Expenditures/Transfers out	11.68	11.05	9.11	10.00	12.50	12.50
Fund balance	**$ 1.29**	**$ 1.53**	**$ 2.94**	**$ 3.29**	**$ 0.99**	**$ (1.11)**

Department uses during fiscal years 2016 through 2019:
Primarily to pay for inmate healthcare and food services.

State-directed uses during fiscal years 2016 through 2019:
$5,000 transferred to State Automation Projects Fund to contribute to replacing the State's procurement system.

Table 31 continued

State Charitable, Penal and Reformatory Institutions Land Fund—An appropriated fund that receives proceeds from federally granted lands, donated properties, and sale of products or property from these lands. May be used for the Department's benefit and support (this could include capital needs).

	Actual				Estimate	
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
Revenues/Transfers in	$2.69	$2.73	$2.90	$2.87	$4.26	$3.06
Expenditures/Transfers out	1.86	3.38	3.66	3.57	3.16	5.16
Fund balance	**$4.44**	**$3.79**	**$3.03**	**$2.33**	**$3.43**	**$1.33**

Department uses during fiscal years 2016 through 2019:
Primarily to pay for inmate healthcare, payments to Arizona counties for housing inmates, inmate food services, furniture and equipment, and other operating expenses.

State-directed uses during fiscal years 2016 through 2019:
$1 million transferred to State Automation Projects Fund for replacing the Department's Adult Inmate Management System.
$1 million transferred to county attorneys for felony pretrial intervention programs.
$500,000 transferred to Yavapai County for reentry planning services for persons in Sheriff's custody.
$16,100 transferred to State Automation Projects Fund to contribute to replacing the State's procurement system.

[1] Financial information for the Arizona Correctional Industries Revolving Fund is presented on a cash basis in this table based on information provided by the Department to allow for consistency of reporting financial information between fiscal years. As discussed in Chapter 3, page 22, Arizona Correctional Industries operates like a business enterprise and its financial activity is generally accounted for in a similar manner as private businesses (see Chapter 3, Table 5, pages 22 through 23).

Source: Auditor General staff review of Arizona statutes and analysis of the *Department of Corrections Arizona Correctional Industries Financial Statements* audited by other auditors, the Arizona Financial Information System *Accounting Event Transaction File* and State of Arizona *Annual Financial Report* for fiscal years 2016 through 2019, and Department-provided financial estimates for fiscal years 2020 through 2021.

Inmate trust account (ITA) deductions

As discussed in Chapter 2 (see pages 12 through 16), the Department is responsible for applying deductions from ITAs. Statutes, Department orders, and court orders require or authorize 32 various deductions from ITAs, and the Department deducted approximately $81.2 million from ITAs in fiscal year 2019. Table 32 summarizes information about fiscal year 2019 deductions.

Table 32
Amounts deducted from ITAs and numbers of inmates with 1 or more deductions by deduction type
Fiscal year 2019
(Unaudited)

Deduction type	Amount deducted	Number of inmates
Commissary/inmate store purchases—Inmates can purchase various items, such as food, cigarettes, phone cards, toiletries, etc., from the commissary store (see page 29 for more information about commissary store prices).	$50,527,284	53,766
Retention account—For inmates who earn $2 or more per hour and have excess wages after all mandatory deductions are made, the Department deposits the excess wages to their retention account.	7,455,264	3,265
Various check payments—Includes inmate payments to parties other than the Department, such as sending money to family, and monies deducted from dedicated discharge or retention accounts and distributed to inmates when released.	7,326,507	27,720
Dedicated discharge account (DDA)—Wage-earning inmates pay 25 percent of inmate wages to the DDA until the account reaches $250 (or $50 for inmates serving a life sentence).	3,939,988	42,918
Room and board—Inmates who earn $2 or more per hour pay 30 percent of their wages toward the Department's costs of maintaining the inmates at the prison complex.	3,503,072	3,073
Fundraisers—Inmates' voluntary donations to charity fundraisers.	3,031,615	25,926
Court-ordered restitution—When court ordered, 20 percent of all deposits to an inmate's spendable account is deducted for paying restitution.	1,480,177	7,230
Transition fee—Wage-earning inmates pay 5 percent of their income to this fee.[1] Monies provide services such as substance abuse treatment to inmates being released/transitioning into the community.	1,155,776	41,219
Other deduction types—Inmates are subject to 16 other deductions that generally occur less frequently and involve smaller amounts, such as deductions for obtaining Motor Vehicle Division identification cards, postage, and GED testing fees.	685,057	33,440
ITA fee—As allowed by statute, all deposits to inmate spendable accounts are charged a 1 percent fee, which is deposited into the Building Renewal Fund.[2]	598,800	54,998
Utilities—Inmates with a qualifying appliance are charged a $2.00 monthly fee (see pages 27 through 28 for more information about this fee).	520,208	27,358
Alcohol Abuse Treatment Fund (AATF)—Wage-earning inmates convicted of driving-under-the-influence (DUI) offenses under A.R.S. Title 28, Ch. 4, pay 67 percent of wages or $0.50 per hour—whichever is less—to the AATF. Monies in the AATF provide alcohol abuse treatment and rehabilitation services.	454,296	2,386

Table 32 continued

Deduction type	Amount deducted	Number of inmates
Medical copays—Inmates are charged $4 per medical visit/issue.[3]	341,775	32,863
Discipline restitution—When assigned by the Department to pay restitution, such as for destroying State property, 10 percent of all deposits to an inmate's spendable account is deducted to pay this restitution.	104,135	4,290
Federal filing fees—When an inmate initiates a federal lawsuit, the inmate pays 20 percent from all deposits to the spendable account for court filing fees.	44,052	431
Child support—When applicable, inmates pay 30 percent from their wages to court-ordered dependent care.	23,049	134
State filing fees—When an inmate initiates a State lawsuit, the inmate pays 20 percent from all deposits to the spendable account for court filing fees.	21,040	192
Total	**$81,212,096**	

1 Per A.R.S. §31-254(D)(3) and (E)(3), inmates charged with a DUI offense are assessed the AATF deduction and are not assessed the transition fee.

2 A.R.S. §31-230(D) allows the Director to charge a fee for each deposit made into an inmate's spendable account. In addition, A.R.S. §31-230(D) requires the Department to deposit these fees into the Department's Building Renewal Fund, which is used to repair and rework Department buildings and infrastructure.

3 A.R.S. §31-201.01(G) and (N)(1) require the Director to establish a reasonable medical copay fee that does not exceed $5. According to Department staff, if more than 1 medical visit is needed to treat an issue, inmates are only charged the initial $4 medical copay. In addition, Department staff reported that inmates are not charged copays for prescription drugs or medical equipment. The Department also reported that an inmate who cannot afford the copay will still receive medical services; the inmate's account will have a balance due for the copay until it can be paid.

Source: Auditor General staff analysis of statutes, Department Orders, and ITA transactions for fiscal year 2019 obtained from Department records.

Objectives, scope, and methodology

The Arizona Auditor General has conducted this performance audit of the Department pursuant to a September 19, 2018, resolution of the Joint Legislative Audit Committee. The audit was conducted as part of the sunset review process prescribed in A.R.S. §41-2951 et seq. For this audit, we reviewed the Department's (1) revenues and expenditures for fiscal years 2016 through 2019, (2) requested and appropriated funding for capital and building renewal projects for fiscal years 2016 through 2021, and (3) management of inmate trust accounts. We also provide additional information about the Department and ACI.

We used various methods to address the audit's objectives. These methods included reviewing applicable statutes, rules, and session laws; reviewing information on the Department's website, such as Department Orders and monthly reports; and interviewing Department management and staff. We also used the following additional methods to meet the audit's objectives:

- To review the Department's revenues and expenditures for fiscal years 2016 through 2019, we compiled and analyzed information from the Arizona Financial Information System *Accounting Event Transaction File* for July 1, 2015 through December 31, 2019; State of Arizona *Annual Financial Report* for fiscal years 2016 through 2019; *Department of Corrections Arizona Correctional Industries Financial Statements*, audited by an independent certified public accounting firm, for fiscal years 2016 through 2019; and Department-provided information and State appropriations reports.
- To conduct a high-level review of the Department's fiscal year 2019 expenditures and transfers, we performed the following:
    - Analyzed each Department fund's expenditures for professional and outside services, food and related services, other operating expenditures, and capital and noncapital purchases to understand the types and amounts of fund expenditures and judgmentally selected large contracts that made up various expenditure categories to assess whether the purpose of contract expenditures complied with statutory requirements or other laws:
        - 25 professional and outside services contracts from 18 vendors with $333.8 million in expenditures, representing 97.6 percent of professional and outside services expenditures.
        - 2 food and related contracts from 1 vendor with $40.2 million in expenditures, representing 99 percent of food and related expenditures.
        - 25 other operating expenditure contracts for 22 vendors with $12.9 million in expenditures, representing 8 percent of other operating expenditures.
        - 14 capital and noncapital purchase contracts for 13 vendors with $7 million in expenditures, representing 37.1 percent of capital and noncapital purchases.

      We also assessed an additional $101 million of other operating expenditures paid to inmates and 24 vendors, representing 63 percent of other operating expenditures, for compliance with statutory requirements and other laws through other methods such as reviewing vendor websites, similar contracts, and supporting documentation or analyzing overall expenditures in certain areas such as inmate payments.

- Reviewed all transfers to other State funds or agencies and assessed these transfers for compliance with statutory requirements and other laws.
- Analyzed overall payroll and employee related expenditures for trends between fiscal years 2016 and 2019 and assessed fiscal year 2019 payroll expenditures for compliance with statutory requirements and other laws.

- To assess the Department's internal control procedures for processing various financial transactions—including payroll, travel, professional and outside services, food, capital and noncapital equipment, other operating expenses, and purchasing card (p-card) and central travel account (CTA) transactions—we reviewed the Department's procedures and compared them to the policies and procedures required by the *State of Arizona Accounting Manual* (SAAM).[57] We also judgmentally selected and tested the following fiscal year 2019 expenditure transactions for compliance with the Department's procedures and SAAM and for compliance with statutory requirements or other laws:[58]
    - 56 professional and outside services, food and related, other operating, and capital and noncapital purchase expenditure transactions, which comprised between 1.2 and 10.7 percent of these expenditures made in fiscal year 2019, excluding p-card transactions.
    - 10 payroll expenditure transactions.
    - 10 travel expenditure transactions, excluding CTA transactions.
    - 7 CTA transactions.
    - 5 p-card transactions.

- To review the Department's capital improvement process, capital funding requests, and capital funding received for fiscal years 2016 through 2021, we performed the following:
    - Reviewed the State's annual capital improvement process requirements.
    - Interviewed capital planning management and staff at ADOA.
    - Reviewed the Governor's executive budgets for fiscal years 2016 through 2020.
    - Reviewed capital appropriation bills for fiscal years 2016 through 2021.
    - Reviewed the Department's and ADOA's annual capital improvement plans and the Department's reports to the Joint Legislative Budget Committee on the status of JCCR-approved building renewal projects.
    - Reviewed literature pertaining to potential effects of underfunding capital projects and deferred maintenance.[59]
    - Toured the Lewis prison complex in August and December 2019, reviewed a report on the effectiveness of locks at the Lewis prison complex, and reviewed JCCR documentation pertaining to a project to replace locking mechanisms at the prison.[60]

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[57] CTA is a type of commercial credit card used for travel-related purchases.

[58] We judgmentally selected expenditure transactions (1) from large contracts identified in our high-level review, (2) with large dollar amounts, or (3) in categories that have a higher risk of being unallowable such as those paid using a p-card or CTA.

[59] CGL Companies. (n.d.). *Deferred maintenance crisis—Predicting negative effects*. Retrieved 8/9/2019 from https://www.cglcompanies.com/knowledge-center/#whitepapers.

[60] Berch, R.W., & McGregor, R.V. (2019). *Report to the Governor: The effectiveness of locks at Lewis prison*. Retrieved 8/15/2019 from https://azgovernor.gov/sites/default/files/corrections_report.pdf.

- To review the Department's oversight and management of inmate trust accounts (ITAs), we performed the following:
    - Reviewed and summarized deposits into and deductions from the ITAs for fiscal year 2019.
    - Reviewed a stratified random sample of 179 deductions for 60 inmates across 16 different deduction types to determine the accuracy (i.e., the amount deducted was correct) and appropriateness (i.e., the Department had support justifying the deduction) of the deductions.[61]
    - With the help of Department staff, observed and verified our understanding of ITA information in the Department's Adult Inmate Management System (AIMS) database on 3 occasions between December 2019 and March 2020.
    - Analyzed all fiscal year 2019 deductions that were a specified fee amount (i.e., utility fees and medical copays) to ensure that inmates were charged the correct amount. Specifically, we analyzed all 261,331 utility-fee and all 86,468 medical-copay deductions.
    - Reviewed various ITA reconciliation reports and observed how the Department performs various ITA reconciliations. We also reviewed the June and November 2019 reconciliations of the overall ITA balances in AIMS to bank statements and available documentation for 4 unreconciled items from the November 2019 reconciliation (see Chapter 2, pages 14 through 16, for additional information).
- To obtain additional information about ACI, we performed the following:
    - Judgmentally selected and reviewed contracts and contract amendments for 4 of the Department's 33 labor partners for fiscal year 2019 to obtain information on costs labor partners pay to ACI.[62]
    - Reviewed information from the Internal Revenue Service website regarding the Federal Work Opportunity Tax Credit.
- To obtain additional information included in the report, we performed the following:
    - Contacted corrections and budget personnel in 4 other states—Ohio, Texas, Virginia, and Washington—to obtain comparative information on capital funding provided to state corrections agencies in fiscal years 2016 through 2020, inmate wages, and inmate fees, including phone fees, medical costs, and utility fees. We judgmentally selected these states based on factors (both for similarities and differences) such as inmate population, agency budget, and geographic location.
    - Reviewed Department contracts with private entities for services such as inmate phone use and prison commissaries. Additionally, between January and February 2020, we compared the prices of 10 commissary items to prices at 3 different retail stores that sell similar items to assess the reasonableness of their prices.
    - Reviewed an interagency service agreement between the Department and Arizona Department of Economic Security regarding the vending machines in prison visitation areas.
- Our work on internal control included reviewing Department policies and procedures and performing test work over Department expenditures, ITA deductions, and setting commissary-item prices, and our conclusions are reported in Chapters 2 and 3. We also assessed the reliability of the ITA data within the AIMS database by reviewing database controls and ITA reconciliation processes and comparing information in the database against supporting documentation to ensure its accuracy. Through this work, we determined that the data

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[61] We reviewed 179 of the 4,833,774 total deductions in fiscal year 2019 across 16 of the 32 total deduction types.

[62] The 4 labor partners are Hickman's Egg Ranch, Inc.; Keefe Commissary Network, LLC; Common Market Equipment Company Inc. (also known as Swift); and Taylor Farms Southwest. We judgmentally selected these 4 partners, who represent the top contracts for highest number of inmate labor hours, inmate workers, and ACI revenue for fiscal year 2019.

was sufficiently reliable for audit purposes. Our internal control work was limited to reviewing the control activities component of internal control and its related principles, which were significant to our objectives.

We selected our audit samples to provide sufficient evidence to support the information, findings, and recommendations in this report. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

We conducted this performance audit of the Department in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We express our appreciation to the Department's Director and staff for their cooperation and assistance throughout the audit.

DEPARTMENT RESPONSE

Arizona Department of Corrections Rehabilitation & Reentry

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DAVID SHINN
DIRECTOR

October 6, 2020

Lindsey Perry, CPA, CFE
Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018-7271

Re: Auditor General Report – Capital projects funding and finances

Dear Ms. Perry:

Attached is the Arizona Department of Corrections, Rehabilitation and Reentry's response to the performance audit report, focusing on capital projects funding and finances. Thank you for the opportunity to respond.

If you have any questions, please do not hesitate to contact my office.

Thank you,

David Shinn
Director

Chapter 2: Although most inmate trust account (ITA) deductions we reviewed were accurate and supported, Department has not reconciled ITA and bank statement balances since November 2019, which increases the risk of incorrect ITA balances or unaccounted-for monies

Recommendation 1: To ensure compliance with State policy, the Department should continue to resolve its data conversion issues and complete the reconciliations for those months that have not been fully reconciled.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Since the implementation of the new system (Keep Trak) at the end of November 2019, the monthly reconciliation takes place inside the system. During the data migration from AIMS, a lot of records that should have not be transferred to the new system did, causing complications and a lot of manual work to resolve the conversion issues. As with any new system, the lack of enough knowledge and experience of the staff, led to posting errors that additionally delays and complicates the reconciliation process. The Department is planning to complete the reconciliations and become current by November 30, 2020. In addition, the Department will create written procedures for the reconciliation in the new system by October 31, 2020.

Recommendation 2: To ensure compliance with State policy, the Department should develop and implement a strategy and time frame to resolve the outstanding unreconciled items from previous reconciliations and resolve them in accordance with this strategy and time frame. The Department should work with ADOA, as needed, to determine how to address unreconcilable items. Going forward, the Department should ensure that it resolves anomalies, deficiencies, imbalances, and errors detected through reconciliations generally within 30 days.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department will review each outstanding unreconciled item, less than five years old, from previous reconciliations and have them cleared by November 30, 2020, which may involve processing journal entries in Keep Trak and/or AFIS. The Department will also establish Standard Work to ensure that any anomalies, deficiencies, imbalances, and errors detected through reconciliations are resolved within 30 days. The Standard Work will be established by December 30, 2020.

Recommendation 3: To ensure compliance with State policy, the Department should retain all historical supporting documentation for each monthly reconciliation in accordance with its record retention policy.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department developed a template that captures the monthly end balance of the Payroll Receivable account. The Excel document has a summary section with the balances of the different type receivables, and a detail section that support the amounts on the summary table. The new template was deployed in FY 2021.

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