Office of Audits & Advisory Services

Incarcerated Persons' Welfare Fund

Final Report

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JUAN R. PEREZ
CHIEF OF AUDITS

May 19, 2026

TO: Kelly A. Martinez, Sheriff
Office of the Sheriff

FROM: Juan R. Perez
Chief of Audits

FINAL REPORT: INCARCERATED PERSONS' WELFARE FUND

Enclosed is our report on the Incarcerated Persons' Welfare Fund Audit. We have reviewed your response to our recommendations and have attached it to the audit report.

The actions taken and/or planned, in general, are responsive to the recommendations in the report. As required under Board of Supervisors Policy B-44, we respectfully request that you provide quarterly status reports on the implementation progress of the recommendations. You or your designee will receive email notifications when these quarterly updates are due, and these notifications will continue until all actions have been implemented.

If you have any questions, please contact me at (858) 495-5661.

Juan R Perez

JUAN R. PEREZ
Chief of Audits

AUD:EH:nb

Enclosure

c: Judy Ying, Interim Deputy Chief Financial Officer
Andrew Strong, Deputy Chief Administrative Officer, Public Safety Group
Kathleen Flannery, Chief Operations Officer, Public Safety Group
Tracy Drager, Auditor and Controller
Lisa Keller, Group Finance Director, Public Safety Group

About the Office of Audits & Advisory Services

The mission of the Auditor and Controller's Office of Audits & Advisory Services (OAAS) is to provide independent, objective assurance and consulting services designed to add value and improve the County of San Diego's operations. OAAS helps the County accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Audit Authority

OAAS derives its authority to conduct audits of County departments and programs primarily from the County Charter, County Administrative Code, Board of Supervisors Policy Manual, and California Government Code.

Statement of Auditing Standards

This advisory engagement was conducted in conformance with the Global Audit Standards prescribed by the Institute of Internal Auditors as required by California Government Code, Section 1236.

AUDIT OBJECTIVE & SCOPE

OAAS completed an audit of the Incarcerated Persons' Welfare Fund (IPWF). The objective of the audit was to evaluate the welfare fund activity to determine if it is used only for authorized purposes and for the benefit of incarcerated persons. The audit scope focused on evaluating policies and procedures related to the IPWF and a review of financial information and expenditures for the fiscal years 2022-23 through 2024-25.

AUDIT RESULTS

Within the scope of the audit, OAAS determined that the IPWF is being used for authorized purposes and supports the needs of incarcerated persons. However, the review also identified areas where compliance and administration can be strengthened, including meeting specific Penal Code (PC) requirements, establishing comprehensive policies and procedures, and fulfilling certain contract terms related to outcome objectives for inmate educational programs. Further details are provided in the report findings.

Finding I:

PC 4025 Reporting Requirement Not Performed

OAAS noted that the Sheriff's Office (Sheriff) annual reporting may benefit from closer alignment with the requirements outlined in PC 4025, Section E. The code requires an annual itemized report of IPWF expenditures to be provided to the Board of Supervisors (BOS). The Sheriff has been providing an annual IPWF expenditure summary in a pie chart format with broad spending categories, rather than a fully itemized report. The Sheriff's Reentry staff understood the summarized format to be sufficient for reporting purposes to the BOS and shared that an annual itemized expenditure report has been prepared in the past but was only made available upon request.

As a result, the BOS does not receive the level of detailed financial information required by PC 4025(e). This reduces the depth of oversight available and may reduce transparency around the use of IPWF resources. Without detailed reporting, accountability for fund management may also be reduced.

RECOMMENDATION:

To ensure alignment with PC 4025(e) requirements, an itemized report of IPWF expenditures should be prepared and submitted to the Board of Supervisors annually.

Finding II:

Operating Procedures and Controls Over the IPWF

The current IPWF Operating Procedures and IPWF Committee Bylaws lack comprehensive procedures necessary to ensure compliance with PC 4025 or to support adequate accounting processes. Specifically, the procedures do not address required IPWF deposit processes, allowable use of funds, or accounting controls over balances and transfers from the Jail Store

Commissary (JSC) to the IPWF. The following key PC 4025 requirements and accounting processes are missing:

- Depositing all profits into an inmate welfare fund maintained in the county treasury (PC 4025(b)).
- Depositing 10% of all gross hobbycraft sales into the IPWF (PC 4025(c)).
- Guidance identifying eligible and ineligible uses of the IPWF (PC 4025(e)).
- Allowable expenditures for indigent inmates (PC 4025(i)).
- Accounting processes for monitoring IPWF balances and recording transfers from the JSC.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Framework provides principles for organizations to design, implement, and assess their internal control systems. The following COSO components should be implemented to define processes over IPWF:

- Control Activities - Requires documented policies and procedures to ensure transactions are properly authorized, recorded, and monitored.
- Information & Communication - Requires relevant, accurate, and timely information to support effective oversight.
- Monitoring Activities - Requires ongoing evaluations to ensure controls operate as intended.

Overall, internal controls should establish clear processes for tracking and monitoring IPWF flows from initial JSC deposits to final expenditures.

Insufficient operating procedures and internal controls expose the County to increased risks of noncompliance, financial mismanagement, and potential fraud or misuse of inmate welfare funds. Furthermore, the lack of clear guidance and monitoring processes can result in operational inefficiencies and reduce the transparency over how funds are managed and expended for the benefit of incarcerated individuals.

RECOMMENDATION:

Update and expand the IPWF Operating Procedures and Committee Bylaws to fully incorporate the requirements of Penal Code 4025, including:

1. Incorporating provisions related to:
   - Required deposits and sources of funds.
   - Eligible and ineligible expenditure categories.
   - Allowable spending for indigent inmates' needs.

2. Consulting with the Auditor and Controller to develop and implement formal accounting procedures for:
   - Monitoring IPWF fund balances.

- Reconciling transactions.
- Recording transfers from the Jail Store Commissary.

3. Implementing COSO aligned internal control activities, including segregation of duties, approval workflows, and periodic review of transactions.

4. Establishing ongoing monitoring processes to evaluate the effectiveness of IPWF procedures and controls.

5. Providing training to personnel involved in IPWF administration to ensure consistent application of revised procedures.

Finding III:

Nonreporting of Contract Requirements

The Sheriff provides educational services to in-custody adult individuals, as mandated by California Code of Regulations Title 15, and currently maintains a contract with the Grossmont Union High School District (GUHSD) to deliver many of these educational programs. OAAS found that while GUHSD is responsible for monitoring and reporting on the IPWF funded educational programs provided, GUHSD does not conduct systematic evaluations to assess whether these programs are meeting the required outcome objectives specified in contract terms. While GUHSD tracks operational metrics such as classroom hours attended, the number of students demonstrating fundamental learning, and certificates earned, the contractor is not reporting on the following outcome objectives outlined in the Statement of Work (SOW):

Table 1: GUHSD Contract Requirements

SOW Section	Requirement
2.2.1	75% of those enrolled in courses offered inside a detention or reentry facility shall complete a given course.
2.2.2	75% of those enrolled in courses within the jail and in the community shall report an increased level of knowledge and skills in the course topic reflected in post-completion surveys.

Without receiving outcome-based data, the County is unable to evaluate program effectiveness or verify compliance with contractual requirements. This results in noncompliance with the contract and may expose the County to compliance, legal, or reputational risks.

RECOMMENDATION:

1. The Sheriff's Office should consider amending GUHSD contract terms to clarify expectations for outcome measurement, reporting frequency, and documentation standards for the education programs provided.

    a. A Key Performance Indicator (KPI) framework should be considered over the educational programs provided that would provide clear outcomes over each program provided, including but not limited to the following metrics:

Category	KPI
Participation	% of eligible inmates enrolled
Completion	% completing program, certification, etc.
Impact	% increase in literacy scores
Satisfaction	Average satisfaction rating of courses
Cost-Efficiency	$ per successful completion

2. The Sheriff's Office should establish oversight procedures, such as periodic reviews or progress checkpoints, to ensure the contractor's compliance with outcome reporting requirements and to support timely corrective actions if reporting gaps occur.

BACKGROUND

The County of San Diego's IPWF, formerly known as the Inmate Welfare Fund, was established under California Penal Code §4025, which authorizes county jails to operate commissaries and that the proceeds be used primarily for the benefit, education, and welfare of the incarcerated persons. The IPWF is funded through profits from the jail commissary and supplemental general-purpose revenue approved by the County of San Diego Board of Supervisors in 2021, following the County's decision to eliminate phone call charges and replace the lost telephone commission revenue.

The IPWF supports a broad array of programs intended to reduce recidivism and promote successful reentry, post incarceration, including:

- Vocational training (e.g., culinary, sewing, skilled trades).
- General Educational Development (GED) and college-level classes.
- Psychosocial programs (e.g., counseling, cognitive behavioral therapy, rehabilitation).

In addition to direct programming, the IPWF also funds staff salaries and administrative activities associated with delivering and managing IPWF supported services.

The funds, property, and affairs of the IPWF are overseen by the Incarcerated Persons Welfare Committee (IPWC), which includes Sheriff staff and two civilian members, as of the end of 2025. Responsibilities of the IPWC include establishing policies and plans, accounting of the funds, and providing continuity for the IPWF programs.

METHODOLOGY

OAAS performed the audit using the following methods:

- Interviewed key personnel regarding policies, processes, and requirements relevant to the administration of the IPWF.

- Examined rules, regulations, and policies and procedures related to the IPWF.
- Identified and evaluated existing controls and policies over the administration of the IPWF.
- On a sample basis, determined whether the IPWF was being used in accordance with applicable requirements.
- On a sample basis, verified if JSC profits were properly allocated to the IPWF in accordance with applicable requirements.
- Evaluated the adequacy of the IPWF reserve balances.
- Reviewed contract terms and conditions to determine whether outcomes and objectives over the performance of IPWF programs are being monitored, recorded and reported.

DEPARTMENT'S RESPONSE
(OFFICE OF THE SHERIFF)

SAN DIEGO COUNTY SHERIFF'S OFFICE

Kelly A. Martinez, Sheriff

Rich Williams, Undersheriff

May 14, 2026

TO: Juan R. Perez
Chief of Audits

FROM: Kelly A. Martinez, Sheriff
San Diego Sheriff's Office

OFFICE RESPONSE TO AUDIT RECOMMENDATIONS: INCARCERATED PERSONS' WELFARE FUND

Finding I: PC 4025 Reporting Requirement Not Performed

OAAS Recommendation: To ensure alignment with PC 4025(e) requirements, an itemized report of IPWF expenditures should be prepared and submitted to the Board of Supervisors annually.

Action Plan: The Sheriff's Office acknowledges the recommendation regarding closer alignment with the reporting requirements outlined in Penal Code Section 4025(e). The Sheriff remains committed to transparency and accountability in the management and use of Incarcerated Persons' Welfare Fund (IPWF) resources. The Sheriff's Office will continue providing the Board of Supervisors with the annual IPWF expenditure report which includes an itemized list of expenditures by category. Additionally, upon request, the Sheriff's Office will continue to provide further itemized expenditure detail to support any oversight and review responsibilities.

Planned Completion Date: This remains the current practice.

Contact Information for Implementation: Valerie Amador, Principal Administrative Analyst

Finding II: Operating Procedures and Controls Over the IPWF

OAAS Recommendation: Update and expand the IPWF Operating Procedures and Committee Bylaws to fully incorporate the requirements of Penal Code 4025, including:

1. Incorporating provisions related to:
   - Required deposits and sources of funds.
   - Eligible and ineligible expenditure categories.
   - Allowable spending for indigent inmates' needs.
2. Consulting with the Auditor and Controller to develop and implement formal accounting procedures for:
   - Monitoring IPWF fund balances.
   - Reconciling transactions.

- Recording transfers from the Jail Store Commissary.

3. Implementing COSO aligned internal control activities, including segregation of duties` approval workflows, and periodic review of transactions.
4. Establishing ongoing monitoring processes to evaluate the effectiveness of IPWF procedures and controls.
5. Providing training to personnel involved in IPWF administration to ensure consistent application of revised procedures.

Action Plan: The Sheriff's Office agrees with the audit recommendation. The IPWF Operating Procedures and Committee Bylaws will be updated to formally document and memorialize existing practices to ensure they are clearly defined and consistently reflected in written guidance.
These updates will capture current practices related to the sources and handling of IPWF deposits and revenues and the classifications of allowable and unallowable expenditures.

In coordination with the Auditor and Controller's Office, written accounting procedures will be formalized to reflect existing operations. These procedures will clearly document current financial controls, including ongoing monitoring of fund balances, routine account reconciliations, and established processes for tracking transfers from the Jail Store Commissary Fund.

The existing internal control structure will also be incorporated into the IPWF Bylaws in alignment with COSO principles, including segregation of duties, approval workflows, and oversight of financial transactions. Current monitoring and reporting practices, such as periodic financial reviews, reporting to the IPWF Committee, and resolution of discrepancies, will likewise be formally documented within the procedures.

Existing staff training related to IPWF administration will be incorporated into written guidance, including instruction on applicable policies, Penal Code 4025 requirements, accounting and documentation standards, approval processes, and periodic refresher training.
No changes to current operations are being implemented. This update serves to memorialize established practices within the IPWF framework to ensure they are consistently documented and aligned with audit expectations.

Planned Completion Date: October 2026

Contact Information for Implementation: Valerie Amador, Principal Administrative Analyst

Finding III: Nonreporting of Contract Requirements

OAAS Recommendation:

1. The Sheriff's Office should consider amending GUHSD contract terms to clarify expectations for outcome measurement, reporting frequency, and documentation standards for the education programs provided.

a. A Key Performance Indicator (KPI) framework should be considered over the educational programs provided that would provide clear outcomes over each program provided, including but not limited to the following metrics:

Category	KPI
Participation	% of eligible inmates enrolled
Completion	% completing program, certification, etc.
Impact	% increase in literacy scores
Satisfaction	Average satisfaction rating of courses
Cost-Efficiency	$ per successful completion

2. The Sheriff's Office should establish oversight procedures, such as periodic reviews or progress checkpoints, to ensure the contractor's compliance with outcome reporting requirements and to support timely corrective actions if reporting gaps occur.

Action Plan: The Sheriff's Office agrees with the audit recommendations and will take steps to strengthen outcome measurement, reporting expectations, and oversight for the GUHSD education programs. To address the finding, the Sheriff's Office will develop an amendment to the existing GUHSD contract that clearly outlines an aligned outcome-based performance expectation and incorporates a refined set of Key Performance Indicators. Internal work on the amendment will begin immediately with the goal of finalizing and submitting it for approval within the upcoming new fiscal year.

Planned Completion Date: November 2026

Contact Information for Implementation: Valerie Amador, Principal Administrative Analyst

Kelly A. Martinez
Sheriff

KAM:VAA

OFFICE OF AUDITS & ADVISORY SERVICES' REPLY TO THE DEPARTMENT'S RESPONSE

Finding I: Penal Code Section 4025(e) states: "An itemized report of these expenditures shall be submitted annually to the board of supervisors."

"Itemized expenditures" in the context of the California State Controller refer to a detailed, traceable breakdown of specific costs incurred by local agencies. As such, OAAS considers the Sheriff's Office (SDSO) current practice of reporting IPWF expenditures by category to be a summary report because it does not facilitate traceability or validation of each expenditure. OAAS stands by its recommendation to ensure full alignment with Penal Code requirements and further SDSO's commitment to transparency and accountability. Alternatively, the SDSO could include in its report to the Board a link to a published IPWF expenditure detail report.