



Transmitted via e-mail

February 1, 2011

Mr. James Hart, City Manager  
City of Adelanto  
City Hall  
11600 Air Expressway  
Adelanto, CA 92301

Dear Mr. Hart:

**Final Audit Report—Adelanto Community Correctional Facility, Contract R89.1591.103**

The Department of Finance, Office of State Audits and Evaluations, has completed its fiscal compliance and close-out review of the Adelanto Community Correctional Facility for the period July 1, 2006 through June 30, 2010.

The enclosed report is for your information and use. The City of Adelanto's response to the report findings are incorporated into this final report. The City agreed with our observations and we appreciate its willingness to implement corrective actions.

This report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, the California Department of Corrections and Rehabilitation should post this report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov/> within five working days of this transmittal.

We appreciate the assistance and cooperation of the City. If you have any questions regarding this report, please contact Cheryl Lyon McCormick, Manager, or Osman Sanneh, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA  
Chief, Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Mr. Calvin White, Facility Director, Adelanto Community Correctional Facility  
Mr. George Harris, Finance Director, City of Adelanto  
Ms. Kathy Switzer, Administrative Assistant, Adelanto Community Correctional Facility  
Ms. Dalinda Harman, Chief, Community Correctional Facilities Administration,  
California Department of Corrections and Rehabilitation  
Mr. Terry Dickinson, Correctional Administrator, Community Correctional Facilities  
Administration, California Department of Corrections and Rehabilitation.  
Mr. Robert Logan, Staff Services Manager I, Community Correctional Facilities,  
Administration, California Department of Corrections and Rehabilitation  
Ms. Flordeliza Ligaya, Staff Services Manager I, Community Correctional Facilities Administration,  
California Department of Corrections and Rehabilitation  
Mr. Renato Araza, Program Analyst, Community Correctional Facilities Administration,  
California Department of Corrections and Rehabilitation

A FISCAL COMPLIANCE AUDIT

---

Adelanto Community Correctional Facility  
Contract R89.1591.103  
For the Period July 1, 2006  
through June 30, 2010

Prepared By:  
Office of State Audits and Evaluations  
Department of Finance

**MEMBERS OF THE TEAM**

Cheryl L. McCormick, CPA  
Manager

M. Osman Sanneh, CPA  
Supervisor

Staff

Issa Ndiaye  
Jason Craft

Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

Department of Finance  
Office of State Audits and Evaluations  
300 Capitol Mall, Suite 801  
Sacramento, CA 95814  
(916) 322-2985

# TABLE OF CONTENTS

---

Executive Summary .....	iv
Background, Scope, and Methodology.....	1
Observations.....	4
Appendix A—Inmate Welfare Fund Balances .....	7
Appendix B—Inmate Telephone Revenue Fund Balances.....	8
Appendix C—Inmate Trust Fund Balances .....	9
Response.....	10

## EXECUTIVE SUMMARY

The California Department of Corrections and Rehabilitation (Corrections) contracted with the City of Adelanto (City) to operate the Adelanto Community Correctional Facility (Facility). The City is responsible for providing inmate housing, sustenance, and coordinating inmate activities within the Facility. Under the direction of on-site Corrections staff, the City also assists with inmate custody and Facility security. The Facility, located in Adelanto, California, is designed to accommodate 640 community correctional facility beds. On March 4, 2010, the City requested contract R89.1591.103 be terminated earlier than the previously established date of June 30, 2011. Corrections' Secretary, in a letter to the City Manager dated March 25, 2010, approved the early termination. The contract was terminated and the Facility closed June 4, 2010.

Corrections requested the Department of Finance, Office of State Audits and Evaluations (Finance), to perform a fiscal compliance and close-out audit of the Inmate Welfare Fund (IWF), Inmate Trust Fund (ITF), and Inmate Telephone Revenue Fund (ITRF) for the period July 1, 2006 through June 30, 2010.

### Review Results:

- The City is to remit to Corrections the June 30, 2010 combined residual ITF and IWF cash balances totaling \$218,908 to close the Facility.
- The ITRF residual close-out balance is \$18,378. Per Contract Amendment 11, Corrections and the City will determine the final ownership of this balance.
- To close the Facility and its accounting records at June 30, 2010, the City wrote-off significant amounts of asset and liability accounts and eliminated similar amounts of unsupported and unusual account balances as show below:

<b>IWF</b>	<b>Amount</b>
<b>Due from Other Funds</b>	\$ 68,440
<b>Due to Other Funds</b>	68,440
<b>ITRF</b>	<b>Amount</b>
<b>Cash in Bank</b>	\$ (410,130)
<b>Cash-Clearing Account</b>	(830,000)
<b>Accounts Payable Trade</b>	(92,649)
<b>Due from Other Funds</b>	758,263
<b>Due to Other Funds</b>	2,201,505
<b>Accounts Receivable-Other</b>	29,702

- The City expended \$221,052 of ITRF funds to construct and equip an inmate education computer lab and soon sold the lab and the facility without training any inmates. None of the proceeds of the sale benefited the state or inmates.

# BACKGROUND, SCOPE AND METHODOLOGY

---

## BACKGROUND

The California Department of Corrections and Rehabilitation (Corrections) administers the Community Correctional Facility Program (Program). The Program is intended to ease overcrowding in state institutions, reduce the need for building new state correctional institutions, and provide a financial benefit for the local community in which the facility is located. The Community Correctional Facilities Administration within Corrections is responsible for the on-site administration of the Program.

Penal Code section 6256 authorizes Corrections to enter into contracts with appropriate public and private entities to provide housing, sustenance, supervision, inmate work incentive programs, education, vocational training, pre-release program assessment planning, and other services, as stipulated. Corrections contracted with the City of Adelanto (City), for the operation of the Adelanto Community Correctional Facility (Facility). However, on March 4, 2010, the City requested contract R89.1591.103 be terminated earlier than the previously established date of June 30, 2011. Corrections' Secretary, in a letter to the City Manager dated March 25, 2010, approved the early termination. The contract was terminated and the Facility closed June 4, 2010.

As stipulated by contract R89.1591.103, the Facility's funding is a combination of flat rate expenditure reimbursement and per diem funding. In addition, the contract required the City to establish four different funds and to account for each separately from its general operations.

Below is a description of each of the four funds:

- *Inmate Welfare Fund*—A fund operated for the benefit and welfare of inmates who are under the jurisdiction of Corrections.
- *Inmate Trust Fund*—A fund that accounts for moneys belonging to inmates through work performed or money received from family or friends.
- *Inmate Telephone Revenue Fund*—A fund that accounts for telephone revenue generated from inmates' telephone calls.
- *Equipment Replacement Fund*—Contract funds Corrections allocated for the replacement of Facility equipment.

## SCOPE AND OBJECTIVES

In accordance with an interagency agreement with Corrections, the Department of Finance, Office of State Audits and Evaluations (Finance) conducted a fiscal compliance and close-out audit of contract R89.1591.103 between Corrections and the City. The audit objectives were to:

- Review the Facility's activities, contract compliance, and close-out of the Inmate Welfare Fund, Inmate Trust Fund, and Inmate Telephone Revenue Fund for the period July 1, 2006 through June 30, 2010.
- Determine whether the Facility's internal control allows for the accurate and timely development of cost reporting data and adequate safeguarding of state assets.
- Determine the Facility's compliance with the contract's fiscal and reporting requirements.
- Determine the June 30, 2010 ending balances of the Inmate Welfare Fund, Inmate Trust Fund, and Inmate Telephone Revenue Fund, and verify if the balances were remitted to the state.

Our audit did not include the Facility's operating fund and the Equipment Replacement Fund because Corrections considers these to be facility owned funds.

## **METHODOLOGY**

To ensure the Facility maintains an effective internal control system, a limited understanding of the Facility's internal control was obtained through inquiries and observations of Facility staff. A selected sample of receipts and disbursements was traced to supporting documentation to determine the Facility's compliance with the contract's fiscal and reporting requirements. A review of the contract agreement, Corrections' *Department Operations Manual*, and the Financial Management Handbook for Public Community Correctional Facilities dated July 1989 (Handbook), was performed to determine whether selected items met eligibility requirements.

The Inmate Welfare Fund, Inmate Trust Fund, and Telephone Revenue Funds were reviewed for completeness and propriety. Our review included the following:

- General internal control assessment.
- Review of the Facility's general ledger and/or subsidiary ledgers.
- Identification of fund transfers.
- Determination of whether transfers met eligibility requirements.
- Assessment of fund disbursements.
- Investigations of unusual transactions.
- Verification that the Facility maintained the funds in accordance with Handbook and contract requirements.

Observations are presented in the *Observations* section of this report. Immaterial and non-reportable issues were discussed with Facility representatives. The Appendices include schedules of financial related information that is presented for additional information and analysis.

Recommendations were developed based on contract requirements and guidelines set forth in the Handbook. Fieldwork was conducted during July 2010.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to provide an independent assessment of compliance with contract R89.1591.103, to provide information to improve accountability, and to facilitate decision-making by parties with responsibility to oversee or initiate corrective action. Because our objective was not to perform a financial statement audit, we do not express an opinion on the financial information presented in the

Appendices. Furthermore, our evaluation of the Facility's internal control and tests of compliance was not to provide assurance on the Facility's internal control as a whole, or to provide an opinion on compliance. Accordingly, we do not provide such assurance or express such an opinion.

This report is intended solely for the information and use of the City and Corrections management, and is not intended to be and should not be used by anyone other than these specified parties. However, this restriction is not intended to limit the distribution of this report, which is a matter of public record.

**OBSERVATION 1: Inmate Welfare, Inmate Trust, and Inmate Telephone Revenue Funds Closing Cash Balances**

The Inmate Welfare Fund (IWF), Inmate Trust Fund (ITF), and Inmate Telephone Revenue Fund (ITRF) reported closing cash balances at June 30, 2010 as follows:

FUND	Closing Cash Balance
IWF	\$ 218,903
ITF	\$ 5
<b>Sub-Total</b>	<b>\$ 218,908</b>
ITRF	\$ 18,378
<b>Total</b>	<b>\$ 237,286</b>

*IWF and ITF Cash Balances:* The City reported a combined IWF and ITF cash balance of \$218,908 at June 30, 2010. This amount includes July 2010 and August 2010 bank interest paid into the IWF account.

*ITRF Cash Balance:* The closure agreement between Corrections and the City (Contract R89.1591.103, Amendment 11), required us to determine the remaining ITRF cash accumulated after the June 2004 approval of Contract Amendment 7 between the City and Corrections. In June 2004, the ITRF cash balance was \$286,191. Further, the September 17, 2009 Corrections' Administrative Review Committee decision awarded this balance to the City. Accordingly, our audit of the ITRF June 30, 2010 closing balance does not include the \$286,191.

Based on the results of our audit, the ITRF June 30, 2010 closing balance of \$18,378 represents the unspent ITRF cash balance accumulated after June 2004. Further, this amount represents the residual cash in the fund after construction of the inmate computer lab (see Observation 3 below) and the liquidation of ITRF obligations existing at the June 4, 2010 contract termination date.

Contract Amendment 11 acknowledges that Corrections and the City disagree on ownership of the ITRF cash balance accumulated after June 2004 and that each party could bring action to resolve the dispute over the remaining ITRF funds. Accordingly, we defer to the parties to resolve the dispute over ownership and disposition of the \$18,378 ITRF residual cash balance.

Recommendation: Remit to Corrections the June 30, 2010 combined residual IWF and ITF closing cash balance of \$218,908.

Corrections and the City should work together to resolve ownership of the \$18,378 ITRF cash balance.

**OBSERVATION 2: *Unsupported and Unusual IWF and ITRF Account Write-Offs***

The City's general ledger and trial balance at June 30, 2010 included unusual and unsupported account balances as follows:

<b>Fund</b>	<b>Account Balance at June 30, 2010</b>	<b>Nature of Account Balance</b>
<b>IWF</b>		
<b>Due from Other Funds</b>	\$ 68,440	Unsupported Debit Balance
<b>Due to Other Funds</b>	68,440	Unsupported Debit Balance
<b>ITRF</b>		
<b>Cash in Bank</b>	\$ (410,130)	Unsupported/Unusual Credit Balance
<b>Cash—Clearing Account</b>	(830,000)	Unsupported/Unusual Credit Balance
<b>Accounts Payable-Trade</b>	(92,649)	Unsupported Credit Balance
<b>Due from Other Funds</b>	758,263	Unsupported Debit Balance
<b>Due to Other Funds</b>	2,201,505	Unsupported/Unusual Debit Balance
<b>Accounts Receivable-Other</b>	29,702	Unsupported Debit Balance

Finance's December 12, 2007 audit report on the Facility cited similar Due from Other Funds (\$120,470) and Due to Other Funds (\$105,977) IWF general ledger balances as of June 30, 2006. The City explained these balances as accumulated posting errors from past transactions whose resolution would involve correcting and eliminating journal entries rather than transferring funds. The City failed to provide audit access to its ITRF records for that audit.

The City provided similar explanation for the unusual and unsupported IWF and ITRF general ledger account balances illustrated above. Specifically, the City's accounting management staff stated that these balances resulted from errors in past accounting periods. They further stated that due to personnel changes over the years, it did not have the knowledge or access to the documentation necessary to explain or resolve the errors. Therefore, the City claimed it was left with no option but to write-off or to eliminate the accounts from the books in a manner that does not affect existing cash in its bank accounts.

Recommendation: None. For Corrections' information only.

**OBSERVATION 3: *ITRF Expenditures Failed to Achieve Intended Purpose***

On July 31, 2008, Corrections approved the City's proposal to use ITRF funds totaling \$285,432 to construct and equip an inmate education computer lab. Although the project was completed in August 2009, with a total cost of \$221,052, not a single inmate received training in the new computer lab. Facility managers cite construction delays and the June 4, 2010 contract early termination as reasons for not training inmates.

While the project was underway, the City negotiated an early contract termination with Corrections and sold the Facility (including the computer lab) to the Geo Group, a private operator. The Geo Group currently contracts with Corrections for similar correctional services.

We also noted that while Corrections reimbursed the principal and interest on the bonds issued to build the Facility, it did not retain ownership interest in the property. Accordingly, neither the state nor inmates shared in the \$28 million sale proceeds.

Recommendation: None. For Corrections' information only.

APPENDIX A  
 INMATE WELFARE FUND  
 CLOSE-OUT BALANCES

---

<b>Adelanto Community Correctional Facility            Contract R89.1591.103            Inmate Welfare Fund Balances            For the Period July 1, 2006 through June 30, 2010</b>				
	<b>July 1, 2006 through June 30, 2007</b>	<b>July 1, 2007 through June 30, 2008</b>	<b>July 1, 2008 through June 30, 2009</b>	<b>July 1, 2009 through June 30, 2010<sup>1</sup></b>
Beginning Balance	\$102,799	\$125,286	\$80,428	\$191,600
Deposits	292,432	223,252	353,655	259,897
Disbursements	(269,945)	(268,110)	(242,483)	(232,594)
<b>Ending Balance</b>	<b><u>\$125,286</u></b>	<b><u>\$ 80,428</u></b>	<b><u>\$191,600</u></b>	<b><u>\$218,903<sup>2</sup></u></b>

<sup>1</sup> Balance includes activity occurring in July 2010 and August 2010.

<sup>2</sup> Refer to Observation 1 for disposition of IWF ending cash balance at closure.

APPENDIX B

INMATE TELEPHONE REVENUE FUND  
CLOSE-OUT BALANCES

---

<b>Adelanto Community Correctional Facility Contract R89.1591.103 Inmate Telephone Revenue Fund Balances For the Period July 1, 2006 through June 30, 2010</b>				
	<b>July 1, 2006 through June 30, 2007</b>	<b>July 1, 2007 through June 30, 2008</b>	<b>July 1, 2008 through June 30, 2009</b>	<b>July 1, 2009 through June 30, 2010<sup>3</sup></b>
Beginning Balance	\$56,526	\$186,112	\$253,391	\$246,752
Receipts	197,048	218,181	194,731	172,462
Interest	1,113	1,909	2,537	546
Disbursement	(68,575)	(152,811)	(203,907)	(401,382)
<b>Ending Balance</b>	<b><u>\$186,112</u></b>	<b><u>\$253,391</u></b>	<b><u>\$246,752</u></b>	<b><u>\$ 18,378<sup>4</sup></u></b>

<sup>3</sup> Balance includes activity occurring in July 2010 and August 2010.

<sup>4</sup> Refer to Observation 1 for disposition of ITRF ending cash balances at closure.

APPENDIX C  
INMATE TRUST FUND  
CLOSE-OUT BALANCES

---

<b>Adelanto Community Correctional Facility Contract R89.1591.103 Inmate Trust Fund Balances For the Period July 1, 2006 through June 30, 2010</b>				
	<b>July 1, 2006 through June 30, 2007</b>	<b>July 1, 2007 through June 30, 2008</b>	<b>July 1, 2008 through June 30, 2009</b>	<b>July 1, 2009 through June 30, 2010<sup>5</sup></b>
Beginning Balance	\$69,644	\$ 63,104	\$ 150,871	\$57,748
Receipts	384,909	430,967	499,014	325,959
Disbursements	(391,449)	(343,200)	(592,137)	(383,702)
<b>Ending Balance</b>	<b><u>\$63,104</u></b>	<b><u>\$150,871</u></b>	<b><u>\$ 57,748</u></b>	<b><u>\$ 5<sup>6</sup></u></b>

<sup>5</sup> Balance includes activity occurring in July 2010 and August 2010.

<sup>6</sup> Refer to Observation 1 for the disposition of the ITF ending cash balance at closure.





# City of Adelanto

---

January 15, 2011

David Botelho, CPA  
Department of Finance  
Office of State Audits and Evaluation  
300 Capitol Mall, Suite 801  
Sacramento, CA 95814

Dear Mr. Botelho,

***RE: State DOF Draft Report – Adelanto Community Correctional Facility, Contract R89.1591.103***

The City of Adelanto, as manager of the subsidiary organization Adelanto Community Correctional Facility, is in receipt of the draft audit report prepared by your department regarding the closing of the Adelanto Community Correctional Facility, Contract R89.1591.103. This letter shall serve as the City of Adelanto's response to the audit findings to be incorporated in the final draft of the report as stated in the cover letter attached to the draft. Please see the City of Adelanto's response in order of the observations as listed in the draft report:

**Observation 1: Inmate Welfare, Inmate Trust, and Inmate Telephone Revenue Funds Closing Cash Balances.**

**State DOF Recommendation:**

- Remit to Corrections the June 30, 2010 combined residual IWF and ITF closing cash balance of \$218,908.
- Corrections and the City should work together to resolve ownership of the \$18,378 ITRF cash balance.

**Response:**

- *In regards to the residual balance of the IWF and ITF closing cash balance the City of Adelanto agrees that the balance of \$218,908 and interest earned since date of closing in the amount of \$219,003.58 shall be remitted to the Department of Corrections. Included in this letter is a warrant in the amount of \$219,003.58 addressed to the Department of Corrections.*

- *In regards to the residual balance of the ITRF (\$18,378), the City reserves it right to further discuss the ownership of these funds with the Department of Corrections and will withhold these funds until a decision is reached.*

**Observation 2: Unsupported and Unusual IWF and ITRF Account Write-Offs**

**Recommendation:** None. For Corrections' information only.

*Response: City Staff can discuss the actions with the Department of Corrections, if requested.*

**Observation 3: ITRF Expenditures Failed to Achieve Intended Purpose**

**Recommendation:** None. For Corrections' information only.

*Response: City Staff will discuss with the Department of Correction, if requested.*

If there are any further questions related to the findings or the report I can be contacted at (760) 246-2300x 3036 or by email at [gharris@ci.adelanto.ca.us](mailto:gharris@ci.adelanto.ca.us).

Sincerely,  
City of Adelanto,

Original signed by:

George Harris,  
Deputy City Manager/Management Services

CC:

D. James Hart, City Manager, City of Adelanto  
Todd Litfin, City Attorney, City of Adelanto  
Vanessa Martinez, Assistant Finance Director, City of Adelanto