COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

WENDY L. WATANABE
AUDITOR-CONTROLLER

MARIA M. OMS
CHIEF DEPUTY

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS
JOHN NAIMO
JUDI E. THOMAS

February 26, 2010

TO: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **SHERIFF'S DEPARTMENT – INMATE WELFARE FUND FINANCIAL/COMPLIANCE AUDIT**

The Inmate Welfare Fund (IWF or Fund) is administered by the Sheriff's Department (Sheriff's) and governed by the Inmate Welfare Commission (IWC), made up of private citizens appointed by the Sheriff. The IWF receives profits from sales of items and services to inmates and the public (e.g., commissary sales, inmate telephone services, etc.). IWF monies are used for the benefit, education and welfare of inmates, and for jail maintenance.

At the IWC's request, we contracted with an outside Certified Public Accounting firm, Moss, Levy & Hartzheim, LLP (MLH), to conduct a financial/compliance audit of the IWF for fiscal years 2004-05, 2005-06 and 2006-07. Specifically, MLH's audit was intended to express an opinion on the IWF's financial statements, and determine whether the Sheriff's properly accounted for and disbursed IWF funds. MLH conducted the audit under the Auditor-Controller's Master Agreement.

MLH's report (attached) indicates that the IWF financial statements present fairly the result of the Fund's operations. MLH's management letter for the audit included no material issues.

MLH did identify some opportunities to strengthen the Fund's internal controls and operating efficiency. For example, ensuring that the IWC has an accurate estimate of the Fund's projected revenue when they establish the Fund budget, cash receipts are deposited timely, vending company commissions are received timely, invoices are

stamped "Paid" to help prevent reuse, and the Statement of Net Assets discloses the prior year fund balance. MLH also recommended the Commission acquire different accounting software to increase the amount and accuracy of information regarding the Fund.

MLH discussed the results of their review with the Sheriff's and IWC representatives who generally agreed with MLH's recommendations. Details of MLH's recommendations and the Sheriff's responses are included in Exhibit E of the attached report.

Please call me if you have any questions, or your staff may contact Jim Schneiderman at (213) 253-0101.

WLW:MMO:JLS:MP

Attachment

c: William T Fujioka, Chief Executive Officer
Leroy D. Baca, Sheriff
Public Information Office
Audit Committee

COUNTY OF LOS ANGELES
SHERIFF'S DEPARTMENT
INMATE WELFARE FUND

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

COUNTY OF LOS ANGELES SHERIFF'S DEPARTMENT INMATE WELFARE FUND
AGREED-UPON PROCEDURES

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MOSS, LEVY & HARTZHEIM LLP
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS
RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA

9107 WILSHIRE BLVD., SUITE 400
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.273.1689
www.mlhcpas.com

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

Wendy L. Watanabe
Auditor-Controller
County of Los Angeles
Los Angeles, California

We have performed procedures on a limited scope for the County of Los Angeles Sheriff's Department Inmate Welfare Fund (IWF) for a selected period of July 1, 2004 through June 30, 2007 as outlined in work order 7-55A. Such procedures were agreed to by the County of Los Angeles Department of Auditor-Controller (County) and were performed solely to assist the County in evaluating the internal controls over revenues and expenditures, and the financial reporting system of the County of Los Angeles Sheriff's Department Inmate Welfare Fund.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We agreed to perform the following procedures and report our findings accordingly:

I. Review the financial statement formats and make recommendations to improve functionality, layout, ease of understanding, terminology, and the requirement for each statement prepared.

II. Determine if additional financial statements or reports should be prepared and submitted to the Inmate Welfare Fund Commission (IWC).

III. Determine if all current or proposed financial statements comply with the Municipal Financial Officers Association guidelines.

IV. Review and make recommendations to improve the disbursement process.

V. Obtain financial statements and source documentation to determine yearly expenses for maintenance of County facilities consistent with Penal Code Section 4024(e) for fiscal years 2005-07.

VI. Evaluate and make recommendations to strengthen the internal controls over revenue and expenditures.

The findings resulting from our agreed-upon procedures are described in Exhibit E of this report.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on the County of Los Angeles Sheriff's Department Inmate Welfare Fund compliance with County requirements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the County of Los Angeles, Auditor Controller (Audits Division), and the Inmate Welfare Commission (IWC) and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Beverly Hills, California
April 30, 2009

MOSS, LEVY & HARTZHEIM LLP
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS
RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA

9107 WILSHIRE BLVD., SUITE 400
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.273.1689
www.mlhcpas.com

Wendy L. Watanabe
Auditor Controller
County of Los Angeles
Los Angeles, California

In planning and performing our audit of the financial statements of the County of Los Angeles Sheriff's Department (Sheriff) Inmate Welfare Fund (IWF) for the fiscal years ended June 30, 2005, 2006, and 2007 (on which we have issued our reports dated April 30, 2009), we considered the Sheriff's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements of the IWF and not to provide assurance on the internal control structure. Such consideration would not disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants.

A material weakness is a condition in which the design or operation of the specific internal control structure elements do not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. Exhibit E that accompanies this letter summarizes our comments and recommendations regarding those matters.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Beverly Hills, California
April 30, 2009

COUNTY OF LOS ANGELES SHERIFF'S DEPARTMENT INMATE WELFARE FUND
FINANCIAL REPORTING
EXHIBIT A

The IWF (Inmate Welfare Fund) submits the following financial statements monthly to the IWC (Inmate Welfare Commission):

1. Statement of Net Assets – This statement contains the assets (cash, anticipated revenues), liabilities (vouchers payable), and net assets. This is a calculation of the projected excess of revenues over expenditures, encumbrances, and approved and committed requests for the fiscal year.

2. Cash Balance Schedule – This schedule lists the actual revenues received and expenditures disbursed (year to date) from fiscal year operations of the inmate programs and facilities infrastructure during the fiscal year. This net amount is added/(subtracted) from the cash balance and the ending cash balance to date is calculated.

3. Schedule of Revenues – This schedule is an itemization of the year to date inmate programs and facilities infrastructure revenues received by revenue categories.

4. Statement of Expenditures – This schedule is an itemization of the year to date inmate programs and facilities expenditures by expenditure categories.

5. Schedule of Anticipated Revenues – This schedule shows the anticipated revenues for the fiscal year (by category) and shows the difference between the anticipated revenues to the actual revenue received (which flows from the Schedule of Revenues).

6. Schedule of Due From Other Funds – This schedule is an itemization of the year to date money due from other funds (within the County) to the inmate programs and facilities infrastructure. The total amount of due from other funds flows to the Closing Statement of Net Assets.

7. Schedule of Due To Other Funds – This schedule is an itemization of the year to date money due to other funds (within the County) from the inmate programs and facilities infrastructure. The total amount of due to other funds flows to the Closing Statement of Net Assets.

8. Schedule of Subject to Cancellation – This schedule shows the year to date total approved requests and requisitions that are subject to cancellation (the portion of unreserved net assets). This total flows into the Statement of Net Assets.

9. Schedule of Not Subject to Cancellation – This schedule shows the year to date total encumbrances that are not subject to cancellation (the portion of reserved net assets). This total flows into the Statement of Net Assets.

10. Schedule of Encumbrances Against Approved Requests – This is an itemization of the inmate programs and facilities infrastructure encumbrances that make up the reserved net assets. This total flows into the Schedule of Not Subject to Cancellation.

11. Schedule of Approved Requests – This is an itemization of the inmate programs and facilities infrastructure requests that make up the unreserved net assets. This total flows into the Schedule of Subject to Cancellation.

12. Schedule of Encumbrances – This is an itemization of the inmate programs and facilities infrastructure encumbrances that make up the unreserved net assets. This total flows into the Schedule of Subject to Cancellation.

COUNTY OF LOS ANGELES SHERIFF'S DEPARTMENT INMATE WELFARE FUND
FINANCIAL REPORTING
EXHIBIT A

The IWF (Inmate Welfare Fund) submits the following financial statements monthly to the IWC (Inmate Welfare Commission) (Continued):

13. Schedule of Requisitions – This is an itemization of the inmate programs and facilities infrastructure requisitions that make up the unreserved net assets. This total flows into the Schedule of Subject to Cancellation.

14. Schedule of Accounts Payable – This is an itemization of the inmate programs and facilities infrastructure accounts payable balance year to date that flows into the Closing Statement of Net Assets.

15. Schedule of Vouchers Payable – This is an itemization of the inmate programs and facilities infrastructure vouchers payable balance year to date that flows into the Statement of Net Assets.

16. Schedule of Fund Balance – This schedule is period at year end and it shows the beginning fund balance and the year to date revenues and expenditures that are being closed out to the fund balance in order to arrive at the current fund balance. This total flows into the Closing Statement of Net Assets.

17. Reconciliation of Encumbrances in Financial Statements with Total Encumbrances in CAPS – This schedule reconciles the total encumbrances to date per the financial statements to the total encumbrances shown in the County eCAPS system.

18. Worksheet for Approved Requests for Inmate Welfare Fund – This is a detailed itemization of all activity that occurred period to date that affected the approved requests. The total of this worksheet flows into the Schedule of Approved Requests.

19. Inmate Welfare Fund – Worksheet for Expenditures – This is a detailed itemization of all expenditure activity that occurred period to date (organized by account number and by transaction date). The total of this worksheet flows into the State of Expenditures.

These financial statements/schedules are provided as tools to assist the IWC to evaluate the availability of funds for the approval of new inmate program expenditures throughout the fiscal year. We reviewed the above financial statements and documented our recommendations pertaining to the statements and schedules in Exhibit E.

COUNTY OF LOS ANGELES SHERIFF'S DEPARTMENT INMATE WELFARE FUND
ADDITIONAL FINANCIAL STATEMENTS, SCHEDULES, AND REPORTS
EXHIBIT B

In order to effectively oversee the IWF inmate program, the IWC requires information on the financial position and results of operations of the IWF throughout the fiscal year. We recommend that the following financial statements be submitted on a monthly basis to the IWC:

1. Monthly balance sheet
2. Monthly statement of revenues and expenditures
3. Monthly statement of expenditures by project
4. Revenues and expenditures comparative schedules (including prior two years revenues and expenditures) for the respective month that is being submitted to the IWC

The IWF should also submit year to date comparative schedules of the balance sheet, statement of revenues, and statement of expenditures that shows the ending balances for the prior two years with explanations of variances.

Please see Exhibit E for further discussion and recommendations that apply to the financial statements that are presented to the IWC.

COUNTY OF LOS ANGELES SHERIFF'S DEPARTMENT INMATE WELFARE FUND
YEARLY MAINTENANCE EXPENDITURES
EXHIBIT C

We obtained financial statements and source documentation to determine if the maintenance expenditures of the County facilities are consistent with Penal Code Section 4024(e). Please see Exhibit E for further discussion and recommendations relating to these expenditures.

The following is the total maintenance expenditures for the fiscal years ended June 30, 2005, 2006, and 2007:

Fiscal Year Ended June 30,	Maintenance - Equipment	Maintenance - Structures, Improvements, & Grounds	Maintenance - Total
2005	$ 50,072	$ 6,366,817	$ 6,416,889
2006	205,084	4,676,340	4,881,424
2007	122,688	8,137,271	8,259,959

COUNTY OF LOS ANGELES SHERIFF'S DEPARTMENT INMATE WELFARE FUND
INTERNAL CONTROL PROCEDURES
EXHIBIT D

Inmate Services Unit accounts payable purchase origination and approval process (greater than $5,000):

The requesting unit prepares a memo requesting the purchase of a good. The memo is date stamped and entered into the correspondence log.

The memo is forwarded to the Sheriff's Department Inmate Services Unit (ISU) for review and approval. The ISU reviews the memo and either approves or denies the request based on Penal Code 4025 and 4025.5.

If the request is denied, the requesting unit is notified. If the request is approved by ISU, ISU staff will process the request for the Inmate Welfare Commission approval process.

Once the request is approved by the IWC, an IWC number is assigned to the request and the requesting unit is notified. At this point, the procurement process begins. The request is logged into the ISU's records and it is reviewed.

The request for purchase is sent to the Internal Services Division (ISD) and ISD reviews the request. The ISD will then send out for bids and set up a purchase order number. The goods are then ordered.

ISD will send the ISU a copy of the request with the corresponding purchase order number.

Once all the goods have been received, the warehouse will check the items with the packing slip and sign off the packing slip.

After receiving the invoice, the purchase is ready for a 3 way match (between the invoice, packing slip, and completed paper work with the ISU lieutenant's approval compliance check sheet.)

A copy of the completed purchase order is filed at the ISU and the original documents are sent to the Fiscal Accounts Payable Department.

Inmate Services Unit accounts payable purchase origination and approval process (less than $5,000):

The requesting unit prepares a requesting memo and a procurement request form with an attached quote. This is sent to the ISU. The documents are date stamped and entered into the correspondence log.

A member of the accounting staff attaches a fund available sheet to the documentation so that it could be reviewed.

The ISU receives the documentation and the ISU's lieutenant approves or denies the request based on Penal Code #4025 and 4025.5. If the request is denied, the requesting unit is notified.

If the request is approved, the procurement process is started. The request form is approved by the ISU's Sergeant.

A purchase order is issued and the order is placed.

Once all the goods have been received, the warehouse will check the items with the packing slip and sign off the packing slip.

COUNTY OF LOS ANGELES SHERIFF'S DEPARTMENT INMATE WELFARE FUND
INTERNAL CONTROL PROCEDURES
EXHIBIT D

Inmate Services Unit accounts payable purchase origination and approval process (less than $5,000) (Continued):

The procurement staff will gather the packing slip and documents pertaining to the order (including the invoice) so that it will be ready for a 3 way match (between the invoice, packing slip and completed paper work with the ISU lieutenant's approval compliance check sheet).

A copy of the completed purchase order is filed at the ISU and the original documents are sent to the Fiscal Accounts Payable Department.

Inmate Services Unit accounts payable purchase origination and approval process (internal purchase that is less than $5,000):

The requesting unit will email or provide a written request to the procurement staff at the ISU for the purchase of the goods.

The accountant at the ISU will attach a fund available sheet for the ISU Sergeant's approval.

The ISU Sergeant will approve or deny the request based on penal code #4025 and 4025.5. If the request is denied, the requesting unit is notified.

If the request is approved, the procurement process is started. A purchase order number is issued and the order is placed with the vendor.

Once the goods are received, the warehouse will check the items with the packing slip and sign off on the packing slip.

The procurement staff will then gather the packing slip and all documents pertaining to the order (including the invoice so that the documents will be ready for a 3 way match (between the invoice, packing slip, and completed paper work with the ISU Lieutenant's approval compliance check sheet).

A copy of the completed purchase order is filed at the ISU. The original documents are sent to the Fiscal Accounts Payable department.

COUNTY OF LOS ANGELES SHERIFF'S DEPARTMENT INMATE WELFARE FUND
INTERNAL CONTROL PROCEDURES
EXHIBIT D

Expenditure control procedures at fiscal administration:

Staff reviews all items that are procured from non-agreement vendors in order to verify that an existing purchase agreement is not in existence.

Appropriate Supervisory review is performed on all purchases to ensure that purchases do not exceed dollar amounts established by ISD/PCS. Prior to making a purchase or finance of equipment for a good with a unit cost of $250,000 or more, the purchasing department obtains approval from the Board of Supervisors before submitting the requisition to ISD/PCS. Any changes or modifications to purchase orders or agreements are made only by ISD/PCS and not by departmental personnel.

County staff makes sure that fragmentation of payment due is not done in order to circumvent the $100, $500, or $1,000 limits.

Prior to processing an invoice for payment, the purchasing department units must submit invoices, packing slips, and purchase order (3 way match) for review. Any discrepancies are resolved prior to processing any payments. Special funds staff verifies invoices to ensure that the unit price and terms of payment are in accordance with the purchase order.

If the original purchase order amount is below the final payment price and the variance is 10% or $500 (whichever is less), then the department submits a request to ISD.

The expenditures of the department are reconciled when the financial statements are prepared (on a monthly basis).

All payments are made based on the scheduled payment date to prevent late payments. The "Non-Finalized Payment Document Request" report is reviewed by the purchasing compliance team staff to ensure that all the invoices are either processed or cleared from the system.

All invoices are approved only by personnel who have direct knowledge of the goods or services received. Departmental units review invoices and packing slips and then are forwarded to the Special Fund unit along with a compliance check sheet that is included with all payments.

When a stop payment is required, the department sends a memo to the Auditor-Controller's General Claims Section so that a stop payment can be processed.

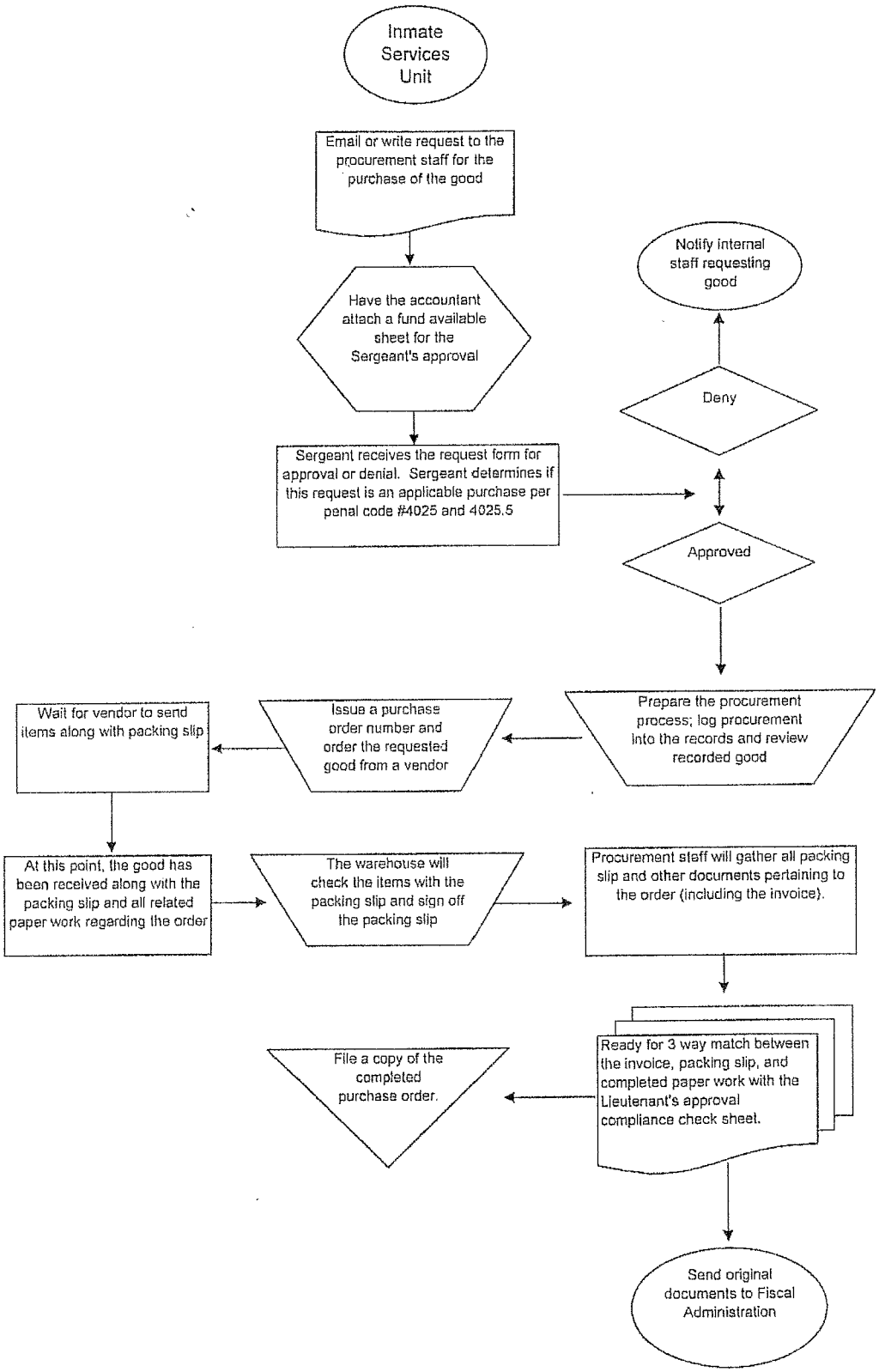
The department cancels all encumbrances established for goods/services that will not be ordered promptly. A change order is sent to ISD in order to cancel an encumbrance.

The department retains source documents (e.g., invoices, report of goods received, etc.) for at least five years (or is sent to storage) in accordance with Government Code 26907.

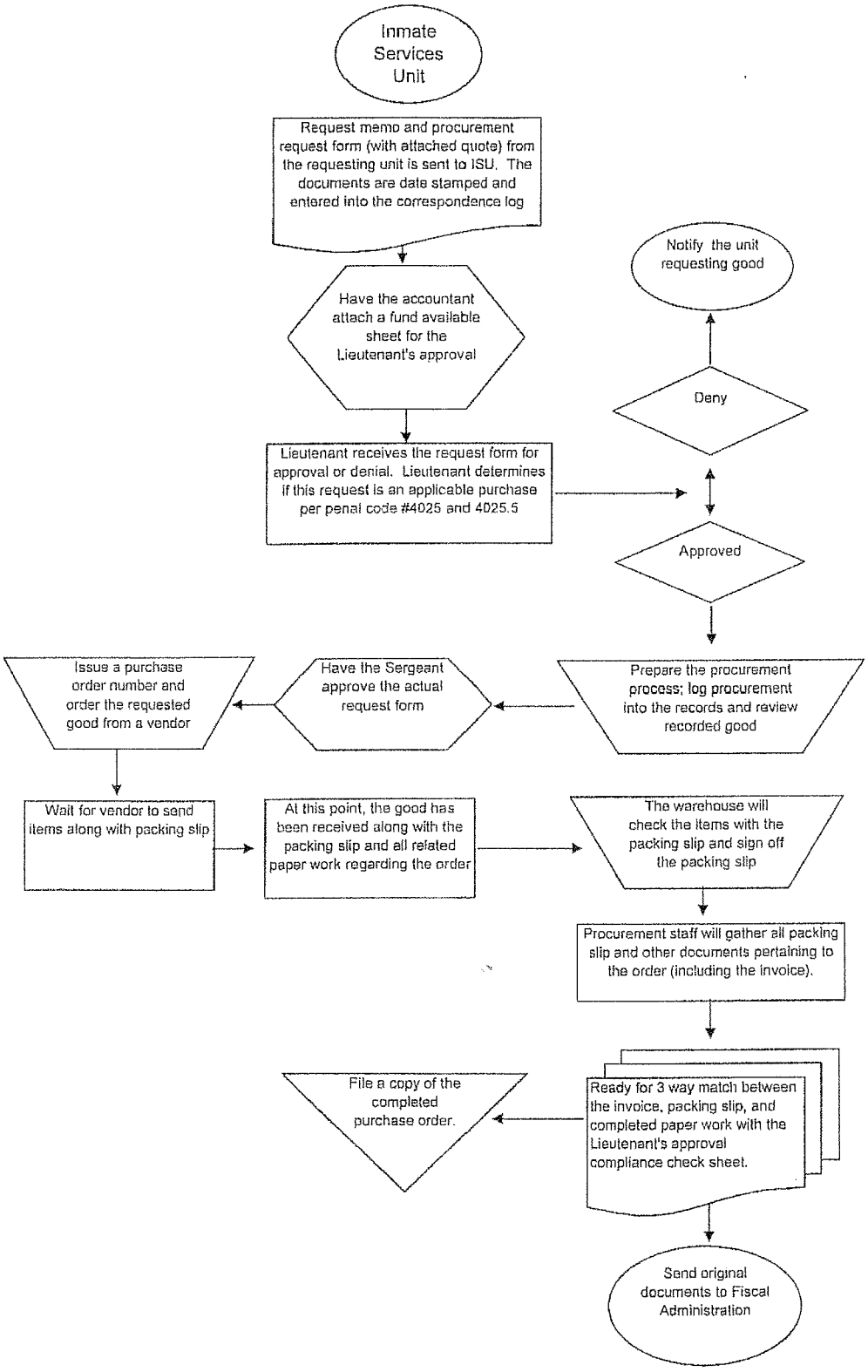
Accounts payables are initiated, recorded, and approved by authorized individuals at year-end for liabilities that are incurred in one fiscal year which are to be paid with the subsequent fiscal year. For goods ordered and in transit at fiscal year end, the expenditure and payable are recorded when ownership passes. Departmental expenditure accruals are reconciled each month to the eCAPS. Unpaid invoices are monitored to ensure payments are made in a timely manner.

Encumbrance balances are only increased during the fiscal year that the encumbered amounts were issued.

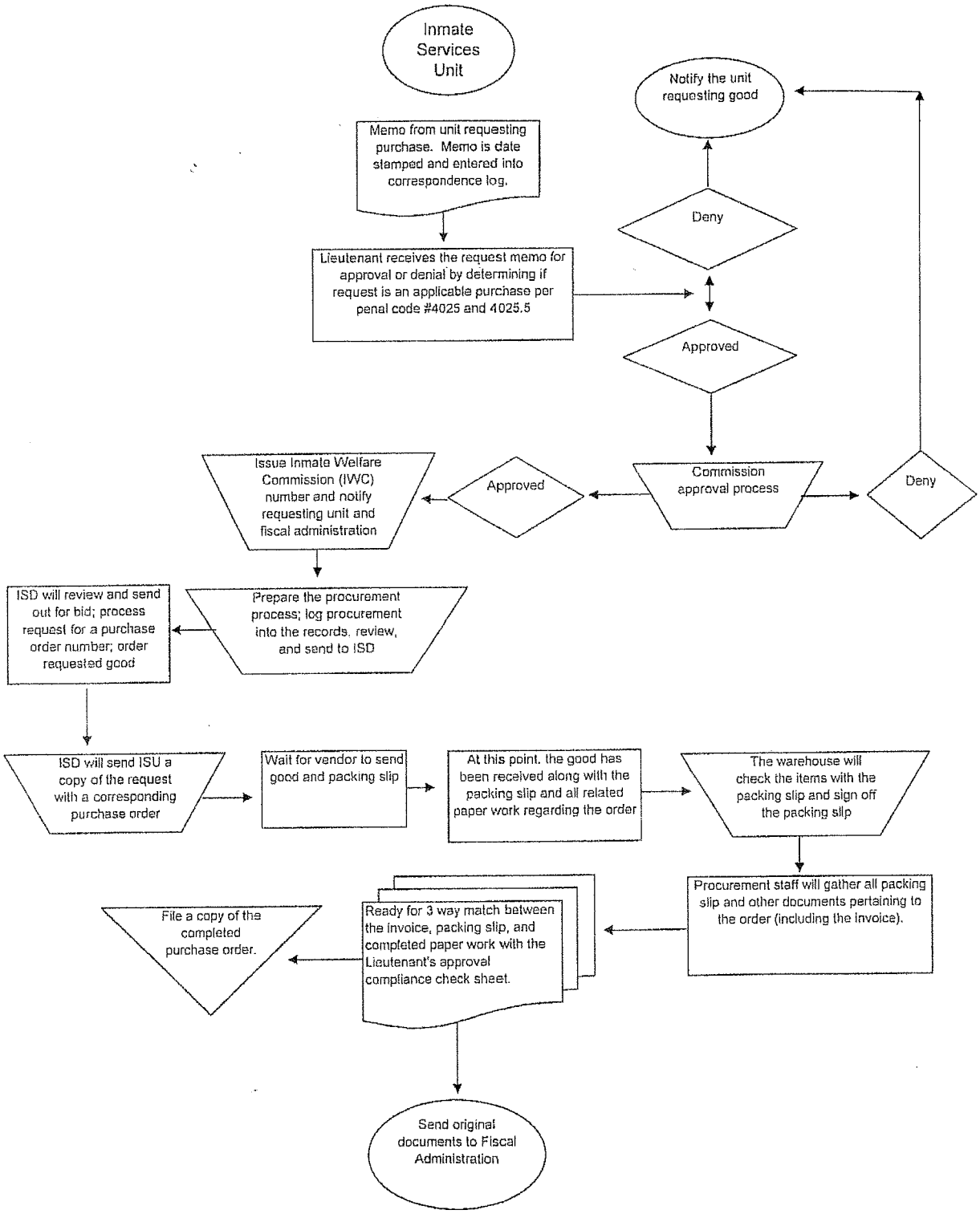
Flow Chart for Inmate Services Procurement Process Under $5,000 (Internal Purchase)



Flow Chart for Inmate Services Procurement Process Under $5,000



Flow Chart for Inmate Services Procurement Process Over $5,000



COUNTY OF LOS ANGELES
OBSERVATIONS ON INTERNAL CONTROLS AND OTHER MATTERS
EXHIBIT E

1. Finding – Availability of funds:
In July 2000, the Sheriff implemented a new policy which earmarks fifty one percent of the annual Inmate Welfare Fund's (IWF) revenue to be expended for programs for the benefit, welfare, rehabilitation, and education of jail inmates, and the remaining forty nine percent of the annual IWF revenue to be expended for jail maintenance. The Inmate Welfare Commission (IWC) retains the authority to review and approve expenditures relating to inmate programs. The authority to review and approve expenditures relating to jail maintenance is given to the Sheriff's Department Correctional Service Division, County Counsel, and the Budget Authority.

As a result of the policy, the amount of funds available for either program or jail maintenance depends on the level of annual revenues each year. The Sheriff's Fiscal Administration allocates the budgeted revenue at the beginning of each fiscal year between inmate programs and jail maintenance. With the exception of the budgeted reimbursement of educational expenses, which is allocated one hundred percent to inmate programs, fifty one percent and forty nine percent of all other revenues are allocated to inmate programs and jail maintenance respectively.

In order to assist the IWC in tracking the amount of funds available for inmate program expenditures throughout the year, the Fiscal Administration submits financial statements/schedules to the Inmate Welfare Commission. However, the anticipated revenue "balance" in the statement of net assets is calculated using the difference between the budgeted revenue amount (which is not adjusted during the fiscal year regardless of the level of actual revenues) and the actual revenue received during the year. Because of this, the Inmate Welfare Commission will not have an accurate overview of revenues when determining the use of revenues within each fiscal year. Additionally the actual revenue received does not take into consideration the accruals of certain revenues that are received after year end (such as telephone commissions) and so the anticipated revenue "balance" does not reflect the true difference between the budgeted revenue amount and the actual revenue. Please see Finding #3 regarding the improper recognition of revenue.

Recommendation:
In order to provide further information that the Inmate Welfare Commission can use when determining the use and amount of expenditures for the Inmate Welfare Fund, the Statement of Net Assets should include the prior year fund balance. Additionally, the anticipated revenue (which is essentially the accounts receivable balance) should properly be adjusted to reflect revenue adjustments that occur throughout the year that relate to the amount of revenue that will be received for a given fiscal year. This along with the proper recognition of revenues (see finding #3) will provide a more accurate outlook that may be utilized by the Inmate Welfare Commission.

Response:
The Department will discuss the recommendation with the Inmate Welfare Commission.

2. Finding – Manual processing and computing used to account for IWF funds:
The County tracks the financial transactions of all County Funds, including the Inmate Welfare Fund in the eCAPS system. The eCAPS system generates financial data by listing the activities and balances of each account. In order to compile financial statements for the IWF, the Fiscal Administration manually inputs the monthly activity of the IWF into excel spreadsheets and manually prepare the Inmate Welfare Fund's financial statements from these excel spreadsheets. This manual processing and computing is an inefficient process. Additionally, it is difficult to view the detailed transactions for the IWF in the excel spreadsheets, as the excel spreadsheets are kept monthly (with the prior month's amount represented by a total preceding the current month's activities). Because of this, users are not able to obtain valuable reports such as: (1) a consolidated fiscal year transactions detail and (2) account specific details for the year for multiple months. Additionally, if a user wanted to

2. Finding – Manual processing and computing used to account for IWF funds (Continued):
search for specific transactions, the user would have to go through each month's spreadsheets in order to manually find the information he/she was looking for. Also, as the information is kept on excel spreadsheets instead of a accounting based software, the possibility for human errors is increased. And lastly, the ability to limit the access to specific components of the accounting information is not possible with the current system as excel spreadsheets lack the flexibility to limit access to specific areas in the IWF accounting information.

   Recommendation:
   The Inmate Welfare Fund should acquire an accounting system that is specifically designed for governmental organizations and has the capabilities to perform the tasks stated above and any other tasks that are deemed beneficial to the Inmate Welfare Fund. This would increase the amount of information available to the Inmate Welfare Fund, decrease the amount of time involved in the preparation of reports and data, decrease the possibility of human errors, and increase the security flexibility of IWF accounting information.

   Response:
   The Department will discuss the recommendation with Inmate Welfare Commission to consider available alternatives.

3. Finding – Untimely refund of IWF monies:
In order to provide educational programs for adults in the County Jails, the IWF entered into an agreement with Hacienda La Puente Unified School District. Hacienda La Puente Unified School District agreed to establish, supervise, and maintain classes for adult education and to provide testing, guidance, and educational vocational services at the Sheriff's Facilities. The Sheriff agreed to reimburse the District for the cost of all services, articles, and supplies in accordance with the annual District budget which is agreed upon at the beginning of each year with the preparation of the Annual Joint Operating Plan. The IWF makes four quarterly payments (based on the annual budgeted amount). At the end of the fiscal year, the District determines the cost of the services that it provided to the IWF (per the agreement) and offsets that cost by the amount already paid by the IWF (total of quarterly payments) and the amount reimbursed by the state for average daily attendance (ADA) of the adult's residing at the County Jails and taking part in the educational programs. The net difference (cost minus IWF payments and ADA reimbursement) is either due to the District (if costs exceeds payments and reimbursement) or due back to the IWF (if costs are less than payments and reimbursement).

   During our review of the checks that were refunded back to the IWF for overpayment, we noted that there was a substantial gap between the fiscal year end and the actual issuance of the refund check for that respective fiscal year. For the 2004/2005 fiscal year, the refund check to the IWF for overpayment was dated June 14, 2006 which is almost one year after the end of the 2004/2005 fiscal year and almost 6 months after the District's financial statement are due to the State. For the 2005/2006 fiscal year, the refund check to the IWF for overpayment was dated November 2, 2007, which is 16 months after the end of the 2005/2006 fiscal year and 10 months after the District's financial statements are due to the State. For the 2006/2007 fiscal year, the refund check to the IWF for overpayment was dated April 30, 2008 which is 14 months after the end of the 2006/2007 fiscal year and 4 months after the District's financial statements are due to the State.

   For the 2004/2005, 2005/2006, and 2006/2007 fiscal years, the costs of services provided by the District were less than the quarterly payments made by IWF by $2,683,978.86, $2,382,110.00, and $2,489,180.12 (these figures exclude the amounts that the District was reimbursed by ADA), respectively. These amounts should have been refunded back to the IWF by August (within 1 to 2 months after the fiscal year end).

3. Finding – Untimely refund of IWF monies (Continued):
For the 2004/2005 and 2005/2006 fiscal years, the amounts that the District was reimbursed from the State for the average daily attendance of the inmates were $5,760,308 and 5,760,308, respectively. The amount for the fiscal year 2006/2007 was not yet received and is not known. These amounts were refunded with the overpayments stated in the preceding paragraph.

The District would normally be reimbursed for ADA by the State by the beginning of the calendar year following the end of the fiscal year (ie. 2004/2005 fiscal year ADA reimbursement should be reimbursed by the State to the District at the beginning of the 2006 calendar year-January/February 2006). By the beginning of the calendar year following the end of the fiscal year, the District would have received all or a majority of its ADA money from the State.

Additionally, as it appears that in the fiscal years 2004/2005, 2005/2006, and 2006/2007, the budgeted costs are below the actual costs (by about $2,500,000), the District should amend its budget to reflect this decrease which should in turn decrease the quarterly payments that the IWF makes to the District.

Because of the untimely refunds by the District, the IWF is losing interest it could have earned from these monies and is also losing the ability to have these funds available for other programs and expenses that could be used by the IWF.

Recommendation:
We recommend that the IWF follow up with the District at the end of each fiscal year in order to ensure that it receives its monies timely. The IWF should also review the budget with the District in order to determine if amendments to the budget should be done in order to ensure that the budget is closer to actual costs that will be incurred.

Response:
In fiscal year 2007/2008 the Department worked with Hacienda La Puente School District to restructure the previous quarterly payment process to one that is based on actual expenditures. The first quarter payment is one-fourth of the approved plan and each additional quarterly payment is based on actual expenditures and takes into consideration any overpayment from the first quarter. This method enables the district to start the fiscal year with adequate funds but prevents the overpayment realized in prior fiscal years. The Department is still dependent on the State payment of ADA funds to the school district which continues to delay ADA reimbursement to the Department.

4. Finding –Cash basis of accounting used for revenue recognition:
During our review of revenues for the IWF, we noted commission revenues were being recorded on the cash basis. Because of this, these revenues were not being accrued to the appropriate periods. For the 2004/2005 fiscal year, revenues were under stated by $9,867,363. For the 2005/2006 fiscal year, revenues were over stated by $9,627,733. For the 2006/2007 fiscal year, revenues were under stated by $2,078,008.

Recommendation:
We recommend that upon receiving the revenues, the IWF should determine which period the revenues are for and book the revenues into the respective fiscal periods accordingly.

Response:
The Department will improve recordkeeping for the various sources of revenue by including detailed transaction information into the subsidiary ledger for each revenue source.

COUNTY OF LOS ANGELES
OBSERVATIONS ON INTERNAL CONTROLS AND OTHER MATTERS
EXHIBIT E

5. Finding – Insufficient cash receipts documentation:
During our review of revenues for the IWF, we noted that there were cash receipts that lacked the necessary documentation needed to determine what the receipts were for and for what periods the revenues were received for. Because of this, we could not adequately verify whether certain revenues were properly received and recorded into the correct respective periods. We noted the following discrepancies: 1) During the fiscal year 2005/2006, an amount of $258,483 was received from AT&T, but there was no documentation to support what the revenue was for and for what period the revenue was received for; 2) During the fiscal year 2005/2006, it appears that either the March or April 2006 receipt that should have been received from GTL (telephone commission) was not received. A check was received on May 12, 2006, but we could not determine if this check was for March or April 2006; 3) During the fiscal year 2005/2006, we noted that there was a receipt from SBC in the amount of $449,347 (check date 1/1/06), but we could not determine what this check was for based on the supporting documentation that we examined; 4) The Contract with SBC stated that a Committed Annual Guarantee (CAG) payments was to be made in the amount of $166,500 (per the contract) in either December 2005 or January 2006, but this receipt could not be located; 5) In addition to the above transactions, other receipts relating to commission revenues that were received by the Inmate Welfare Fund lacked sufficient documentation to determine if the appropriate amount had been received and for what period the revenue should be recognized in.

We were also not able to obtain a detailed cash receipts journal listing all payments received and recorded into the IWF fund for the fiscal years that we examined.

Recommendation:
We recommend that the IWF obtain and attach sufficient documentation needed to support the recording of the revenues into the appropriate period. Additionally, the IWF should maintain a log of all monies that are received for each fiscal year. The log should identify what the money was received for, who it was received from, the period of service, the amount of payment, and the date of payment.

Response:
The Department will improve recordkeeping for the various sources of revenue by including detailed transaction information into the subsidiary ledger for each revenue source.

6. Finding – Cash receipts are not deposited timely:
During our review of revenues, we noted that there were instances where revenues were not being deposited with the County Treasurer's Office timely. We noted that there were revenues deposited between one week to one month after the date of the check.

Recommendation:
We recommend that the IWF deposits its revenues timely to the LA County Treasurer.

Response:
The Department concurs with the recommendation. During this audit period revenues were first sent to Inmate Services Unit for reconciliation prior to forwarding to Fiscal Administration for deposit. Revenues are now received directly by Fiscal Administration and deposits are made within two business days of receipt.

7. Finding – Vending commissions are not being submitted timely:
During our review of cash receipts, we noted that the vending commissions are not being submitted timely to the IWF. Vending commissions are to be paid by the 15th of each month. The vending company should be submitting its commissions 15 days after the period ended, but the company is not complying with this due date. Per the contract, if the commission is not submitted by this deadline, a 10% charge should be assessed.

7. Finding – Vending commissions are not being submitted timely (Continued):

Recommendation:
We recommend that the IWF follow up each month with the vending company to ensure that payment is received promptly. If payment is not received promptly, the IWF should assess the late fee to the vending company.

Response:
The Department increased staffing to its Contract Monitoring Unit (CMU) in fiscal year 2006/2007 which has enabled this contract to be monitored appropriately. In October 2007 CMU performed a monitoring audit and vending was in compliance at that time. A review of the current fiscal year shows that all commission payments have been received by the contracted due date.

8. Finding – Lack of expenditure supporting documentation:
During our test of IWF expenditures for the fiscal year ended June 30, 2005, we noted that there was a lack of supporting documentation for 5 out of 40 tested transactions.

During our test of IWF expenditures for the fiscal year ended June 30, 2006, we noted that there was a lack of supporting documentation for 2 out of 40 tested transactions.

During our test of IWF expenditures for the fiscal year ended June 30, 2007, we noted that there was a lack of supporting documentation for 2 out of 40 tested transactions.

Recommendation:
We recommend that the IWF obtain and retain all supporting documents to support all expenditure transactions.

Response:
The Department concurs with the recommendation.

9. Finding – Lack of purchase compliance checklist:
During our test of IWF expenditures for the fiscal year ended June 30, 2005, we noted that 4 out of 40 expenditure transactions lacked a purchase compliance checklist.

During our test of IWF expenditures for the fiscal year ended June 30, 2006, we noted that 5 out of 40 expenditure transactions had a purchase compliance checklist that lacked the fiscal administration approval signature.

Recommendation:
We recommend that IWF staff obtain and retain completed purchase compliance checklists for all purchases for future verification.

Response:
The compliance check sheet is part of an internal purchasing compliance process. With the implementation of eCAPS Procurement in July 2009, the check sheet is eliminated. The three way match will be an electronic process.

10. Finding – No "PAID" stamp:
During our test of IWF expenditures for the fiscal year ended June 30, 2006, we noted that 5 out of 40 invoices lacked a "PAID" stamp.

During our test of IWF expenditures for the fiscal year ended June 30, 2007, we noted that 5 out of 40 invoices lacked a "PAID" stamp.

10. Finding – No "PAID" stamp (Continued):

Recommendation:
We recommend that the IWF staff stamp "Paid" on all invoices immediately after the payments are made to prevent invoices from being submitted more than once for payment.

Response:
The Department concurs with the recommendation.

COUNTY OF LOS ANGELES
SHERIFF'S DEPARTMENT
INMATE WELFARE FUND
FINANCIAL STATEMENTS

JUNE 30, 2005

COUNTY OF LOS ANGELES SHERIFF'S DEPARTMENT INMATE WELFARE FUND
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MOSS, LEVY & HARTZHEIM LLP
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS
RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA

9107 WILSHIRE BLVD., SUITE 400
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.273.1689
www.mlhcpas.com

INDEPENDENT AUDITOR'S REPORT

Wendy L. Watanabe
Auditor-Controller
County of Los Angeles
Los Angeles, California

We have audited the accompanying balance sheet of the County of Los Angeles Sheriff's Department Inmate Welfare Fund ("IWF"), a fund of the County of Los Angeles, as of and for the fiscal year ended June 30, 2005 and the related statement of revenues, expenditures, and changes in fund balance, which collectively comprise the financial statements as listed in the table of contents. These financial statements are the responsibility of the IWF's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Inmate Welfare Fund as of June 30, 2004 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated December 10, 2004.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the IWF as of June 30, 2005, and the changes in financial position for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2009, on our consideration of the IWF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
April 30, 2009

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COUNTY OF LOS ANGELES SHERIFF'S DEPARTMENT INMATE WELFARE FUND
BALANCE SHEET
JUNE 30, 2005
WITH COMPARATIVE TOTALS AS OF JUNE 30, 2004

	2005	2004
ASSETS		
Equity in cash and pooled investments	$ 49,368,218	$ 46,749,122
Interest receivable	165,302	65,075
Accounts receivable	1,600,804	
Due from County of Los Angeles	339,799	379,990
TOTAL ASSETS	$ 51,474,123	$ 47,194,187
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	$ 407,874	$ 1,486,937
Due to County of Los Angeles	8,296,509	18,543
TOTAL LIABILITIES	8,704,383	1,505,480
FUND BALANCE		
Reserved for encumbrances	10,878,665	10,566,293
Unreserved:		
Undesignated	31,891,075	35,122,414
TOTAL FUND BALANCE	42,769,740	45,688,707
TOTAL LIABILITIES AND FUND BALANCE	$ 51,474,123	$ 47,194,187

SEE NOTES TO FINANCIAL STATEMENTS

COUNTY OF LOS ANGELES SHERIFF'S DEPARTMENT INMATE WELFARE FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	2005	2004
REVENUES		
Commissions	$ 27,186,527	$ 26,760,270
Hacienda La Puente Education Program refund	7,053,367	7,239,403
Investment income	1,064,500	552,178
Miscellaneous	108,526	2,262
TOTAL REVENUES	35,412,920	34,554,113
EXPENDITURES		
Clothing and personal supplies	248,088	244,704
Communications	61,371	120,575
Postage	4,983	6,544
Food	605	1,011
Household expenses	18,005	28,457
Maintenance - equipment	50,072	334,351
Maintenance - structures, improvements, grounds	6,366,817	145,838
Miscellaneous	4,977	3,005
Memberships	157,213	216,166
Professional and specialized services	18,946,174	14,734,537
Vocational supplies	323,617	225,731
Supplies and equipment expense	288,298	165,215
Office expense	82,924	63,299
Equipment rental	30,486	
Departmental expenses	94,422	1,333,173
Travel	60,307	53,143
Merchandise for resale	715,384	714,898
Capital outlay	411,585	1,822,630
TOTAL EXPENDITURES	27,865,328	20,213,277
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	7,547,592	14,340,836
OTHER FINANCING SOURCES (USES)		
Transfers out to County of Los Angeles	(2,200,000)	
TOTAL OTHER FINANCING SOURCES (USES)	(2,200,000)	
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	5,347,592	14,340,836
Fund Balance, Beginning of Fiscal Year	45,688,707	31,347,871
Prior Period Adjustment	(8,266,559)	
Fund Balance, Beginning of Fiscal Year, Restated	37,422,148	31,347,871
Fund Balance, End of Fiscal Year	$ 42,769,740	$ 45,688,707

SEE NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Sheriff's Inmate Welfare Fund (IWF) have been prepared in conformity with accounting principles generally accepted in the United States of America. The accounting policies of the County of Los Angeles Sheriff's Department Inmate Welfare Fund (IWF) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant of such policies:

A. Financial Reporting Entity

The County of Los Angeles Sheriff's Department Inmate Welfare Fund (IWF) was established pursuant to the State of California Penal Code Section 4025. The major sources of revenues of the IWF are composed of commissions received from contracted telephone services and commissary sales and vending machine sales which are for the inmates' use and benefit. Additionally, the Inmate Welfare Fund receives reimbursement from Hacienda La Puente Unified School District for ADA (average daily attendance) money that it receives for inmates that receive educational services. The expenditures of the IWF are governed by the California Penal Code Section 4025 which states that "The money and property in the inmate welfare fund shall be expended by the sheriff primarily for the benefit, education, and welfare of the inmates confined within the jail. Any funds that are not needed for the welfare of the inmates may be expended for the maintenance of county jail facilities. Maintenance of county jail facilities may include, but is not limited to, the salary and benefits of personnel used in the programs to benefit the inmates, including, but not limited to, education, drug and alcohol treatment, welfare, library, accounting, and other programs deemed appropriate by the sheriff."

Starting with the fiscal year beginning July 2000, fifty-one percent of the annual IWF revenue was assigned solely and exclusively to programs for the benefit, welfare, rehabilitation, and education of jail inmates. The remaining forty-nine percent of the annual IWF revenue is earmarked solely for jail maintenance. According to the policy, only the excess revenues are allocated for jail maintenance, and programs will continue to have funding priority over jail maintenance as required by the State of California Penal Code Section 4025.

The Inmate Welfare Commission (IWC) oversees the expenditures for inmate programs, including but not limited to educational, rehabilitative and other expenditures for the welfare and benefit of the inmates. The Sheriff's Correctional Services Division, County Counsel representative, and Budget Authority oversee the expenditures for jail maintenance.

B. Basis of Accounting

The governmental fund financial statement is presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation

The IWF is reported as a special revenue governmental type fund of the County of Los Angeles. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Governmental funds are presented using the flow of current financial resources measurement focus. Generally this means only current assets and current liabilities are included on the balance sheet. Governmental fund operating statements focus on measuring changes in financial position, rather than net income. The operating statement present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. The unreserved fund balance is a measurement of available spendable resources.

D. Comparative Data

Comparative total data for the prior fiscal year has been presented in certain of the accompanying financial statements in order to provide an understanding of changes in the IWF's financial position and operations. Also, certain prior fiscal year amounts have been reclassified to conform with the current fiscal year financial statement presentations.

E. Concentration of Sources of Revenues

The majority of the IWF's revenues are derived from commissions from a few telephone and vending machine companies. For the fiscal year ended June 30, 2005, the percentage of revenues received from each of the following companies to total revenues were:

Revenue Source	Percentage of total revenues received
Verizon Phone Commission	1.24%
SBC Phone Commission	58.79%
AT&T Phone Commission	3.58%
Canteen Commission	10.55%
Vending Machine Commission	2.61%

F. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the related reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Encumbrances

Encumbrances are estimations of cost related to unperformed contracts for goods and services. These commitments are recorded for budgetary control purposes. Encumbrances outstanding at fiscal year end are reported as a reservation of the fund balance. They represent the estimated amount of the expenditure ultimately to result if unperformed contracts in process at fiscal year end are completed. They do not constitute expenditures or estimated liabilities.

NOTE 2 EQUITY IN CASH AND POOLED INVESTMENTS

The IWF cash is included in the County's balance sheet as "Equity in Cash and Pooled Investments". The County maintains a cash and investment pool for all funds of the County and other agencies for which the County treasury is the depository. Interest earned on the pooled funds is allocated and credited to these funds quarterly. Further disclosures regarding the County's cash and investments are included in the Notes of the County's fiscal year ended June 30, 2005 Comprehensive Annual Financial Report.

NOTE 3 FUND BALANCE

Fund Balances in governmental funds are reserved for two purposes: 1) where certain amounts are legally committed for specific future uses, such as outstanding purchase orders (encumbrances), continuing appropriations, capital projects, or debt service; and 2) where assets are not available for appropriations because a.) they have been advanced to another fund; b.) they are noncurrent receivables; or c.) they have been expended as inventory or prepayments.

NOTE 4 TRANSFERS OUT

Transfers to support the operations of other funds are recorded as "Transfers Out" and are classified as "Other Financing Uses."

NOTE 5 DUE TO/FROM COUNTY OF LOS ANGELES

Due to/from County of Los Angeles consists of expenditures and revenues that have been paid or received on behalf of the Inmate Welfare Fund, by the County of Los Angeles and have not yet been transferred to the Inmate Welfare Fund as of the fiscal year ended June 30, 2005.

NOTE 6 CAPITAL OUTLAY

Capital outlay consists of expenditures of equipment, machinery, and vehicles. The Inmate Welfare Fund does not capitalize these expenditures, but the County of Los Angeles (which the Inmate Welfare Fund is a fund of) does capitalize capital outlays. Please see the County of Los Angeles Comprehensive Annual Financial Report for further information regarding capital outlays.

NOTE 7 SUBSEQUENT EVENTS

The Inmate Welfare Fund has an agreement with the Hacienda La Puente Unified School District (District) to establish, supervise, and maintain classes for adult education and to provide testing, guidance, and educational vocational services at the Sheriff's Facilities. The Inmate Welfare Fund makes quarterly payments throughout the fiscal year (based on an estimated amount determined prior to the start of the fiscal year) to reimburse the District for the cost of services provided for inmates. After the fiscal year end, the District determines the actual amount expended for the Inmate Welfare Fund and takes this difference and adds in the amount that the State reimbursed the District for the Average Daily Attendance (ADA) of the inmates. This amount is refunded back to the Inmate Welfare Fund. The 2004/2005 refund, which consisted of $8,444,287, was paid to the Inmate Welfare Fund on June 14, 2006.

On December 13, 2005, SBC was awarded the telephone agreement which provides phone access to inmates. During the first year of the contract, SBC is to pay a committed annual guarantee of $17,000,500 to the Sheriff's Department and $166,500 to the Probation Department. Additionally, effective May 13, 2006, SBC changed its name to AT&T.

Public Communication Services (PCS) and Global Tel Link (GTL) took over portions of the phone contracts during the 2005/2006 fiscal year to be provided on a month to month basis.

NOTE 8 COMMITMENTS

The Inmate Welfare Fund has an agreement with the Hacienda La Puente Unified School District (District) to establish, supervise, and maintain classes for adult education and to provide testing, guidance, and educational vocational services at the Sheriff's Facilities. The Inmate Welfare Fund makes quarterly payments throughout the fiscal year (based on an estimated amount determined prior to the start of the fiscal year) to reimburse the District for the cost of services provided for inmates. After the fiscal year end, the District determines the actual amount expended for the Inmate Welfare Fund and takes this difference and adds in the amount that the State reimbursed the District for the Average Daily Attendance (ADA) of the inmates.

The Inmate Welfare Fund has contracts with various phone companies (SBC and Verizon) in which it receives a commission based on the telephone usage by the inmates. During the 2004/2005 fiscal year, the Inmate Welfare Fund only had month to month agreements.

The Inmate Welfare Fund has a contract with a third party that provides goods (food and other products purchased by inmates) in which the vendor sells goods to the inmates and provides a commission based on the total sales to the Inmate Welfare Fund.

NOTE 9 PRIOR PERIOD ADJUSTMENT

The prior period adjustment of $8,266,559 was due to deferred revenues being understated in the 2003/2004 fiscal year end.

NOTE 10 ADJUSTMENTS TO CAPS

The following adjustments were booked to the financial statements of the Inmate Welfare Fund but were not included in the CAPS:

Account Name	Description
Accounts Receivable	Increase of $1,600,804 due to an understatement of revenues
Commissions	Increase of $1,600,804 due to an understatement of revenues

MOSS, LEVY & HARTZHEIM LLP
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS
RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA

9107 WILSHIRE BLVD., SUITE 400
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.273.1689
www.mlhcpas.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Wendy L. Watanabe
Auditor-Controller
County of Los Angeles

We have audited the accompanying balance sheet of the County of Los Angeles Sheriff's Department Inmate Welfare Fund (IWF) and the related statement of revenues, expenditures, and changes in fund balance as of and for the fiscal year ended June 30, 2005, and have issued our report thereon dated April 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the IWF's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We noted certain other matters that we reported to the County of Los Angeles in a separate report dated April 30, 2009.

The Inmate Welfare Fund's responses to the findings identified in our audit are described in a separate report dated April 30, 2009. We did not audit the IWF's responses and, accordingly, we express no opinion on them.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the IWF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and are reported in a separate issued report dated April 30, 2009.

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This report is intended for the information and use of the Management of the County of Los Angeles, the Board of Supervisors, Auditor Controller (Audits Division), and the Inmate Welfare Commission and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
April 30, 2009

COUNTY OF LOS ANGELES
SHERIFF'S DEPARTMENT
INMATE WELFARE FUND
FINANCIAL STATEMENTS

JUNE 30, 2006

COUNTY OF LOS ANGELES SHERIFF'S DEPARTMENT INMATE WELFARE FUND
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MOSS, LEVY & HARTZHEIM LLP
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS
RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA

9107 WILSHIRE BLVD., SUITE 400
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.273.1689
www.mlhcpas.com

INDEPENDENT AUDITOR'S REPORT

Wendy L. Watanabe
Auditor-Controller
County of Los Angeles
Los Angeles, California

We have audited the accompanying balance sheet of the County of Los Angeles Sheriff's Department Inmate Welfare Fund ("IWF"), a fund of the County of Los Angeles, as of and for the fiscal year ended June 30, 2006 and the related statement of revenues, expenditures, and changes in fund balance, which collectively comprise the financial statements as listed in the table of contents. These financial statements are the responsibility of the IWF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the IWF as of June 30, 2006, and the changes in financial position for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2009, on our consideration of the IWF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
April 30, 2009

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COUNTY OF LOS ANGELES SHERIFF'S DEPARTMENT INMATE WELFARE FUND
BALANCE SHEET
JUNE 30, 2006
WITH COMPARATIVE TOTALS AS OF JUNE 30, 2005

	2006	2005
ASSETS		
Equity in cash and pooled investments	$ 71,581,774	$ 49,368,218
Interest receivable	531,371	165,302
Accounts receivable		1,600,804
Due from County of Los Angeles	573,603	339,799
TOTAL ASSETS	$ 72,686,748	$ 51,474,123
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	$ 1,194,694	$ 407,874
Deferred revenue	8,026,929	
Due to County of Los Angeles	8,585,096	8,296,509
TOTAL LIABILITIES	17,806,719	8,704,383
FUND BALANCE		
Reserved for encumbrances	8,731,790	10,878,665
Unreserved:		
Undesignated	46,148,239	31,891,075
TOTAL FUND BALANCE	54,880,029	42,769,740
TOTAL LIABILITIES AND FUND BALANCE	$ 72,686,748	$ 51,474,123

SEE NOTES TO FINANCIAL STATEMENTS

COUNTY OF LOS ANGELES SHERIFF'S DEPARTMENT INMATE WELFARE FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	2006	2005
REVENUES		
Commissions	$ 22,215,968	$ 27,186,527
Hacienda La Puente Education Program refund	16,646,788	7,053,367
Investment income	2,319,578	1,064,500
Miscellaneous	24,220	108,526
TOTAL REVENUES	41,206,554	35,412,920
EXPENDITURES		
Clothing and personal supplies	254,538	248,088
Communications and network	354,476	61,371
Postage	5,824	4,983
Food	1,769	605
Household expenses	132,924	18,005
Maintenance - equipment	205,084	50,072
Maintenance - structures, improvements, grounds	4,676,340	6,366,817
Miscellaneous	7,913	4,977
Memberships	246,030	157,213
Professional and specialized services	12,003,644	18,946,174
Vocational supplies		323,617
Supplies and equipment expense	509,866	288,298
Office expense	112,002	82,924
Equipment rental	19,491	30,486
Departmental expenses	1,669,690	94,422
Travel	53,187	60,307
Merchandise for resale	883,479	715,384
Capital outlay	906,159	411,585
TOTAL EXPENDITURES	22,042,416	27,865,328
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	19,164,138	7,547,592
OTHER FINANCING SOURCES (USES)		
Transfers out to County of Los Angeles	(7,053,849)	(2,200,000)
TOTAL OTHER FINANCING SOURCES (USES)	(7,053,849)	(2,200,000)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	12,110,289	5,347,592
Fund Balance, Beginning of Fiscal Year	42,769,740	45,688,707
Prior Period Adjustment		(8,266,559)
Fund Balance, Beginning of Fiscal Year, Restated	42,769,740	37,422,148
Fund Balance, End of Fiscal Year	$ 54,880,029	$ 42,769,740

SEE NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Sheriff's Inmate Welfare Fund (IWF) have been prepared in conformity with accounting principles generally accepted in the United States of America. The accounting policies of the County of Los Angeles Sheriff's Department Inmate Welfare Fund (IWF) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant of such policies:

A. Financial Reporting Entity

The County of Los Angeles Sheriff's Department Inmate Welfare Fund (IWF) was established pursuant to the State of California Penal Code Section 4025. The major sources of revenues of the IWF are composed of commissions received from contracted telephone services and commissary sales and vending machine sales which are for the inmates' use and benefit. Additionally, the Inmate Welfare Fund receives reimbursement from Hacienda La Puente Unified School District for ADA (average daily attendance) money that it receives for inmates that receive educational services. The expenditures of the IWF are governed by the California Penal Code Section 4025 which states that "The money and property in the inmate welfare fund shall be expended by the sheriff primarily for the benefit, education, and welfare of the inmates confined within the jail. Any funds that are not needed for the welfare of the inmates may be expended for the maintenance of county jail facilities. Maintenance of county jail facilities may include, but is not limited to, the salary and benefits of personnel used in the programs to benefit the inmates, including, but not limited to, education, drug and alcohol treatment, welfare, library, accounting, and other programs deemed appropriate by the sheriff."

Starting with the fiscal year beginning July 2000, fifty-one percent of the annual IWF revenue was assigned solely and exclusively to programs for the benefit, welfare, rehabilitation, and education of jail inmates. The remaining forty-nine percent of the annual IWF revenue is earmarked solely for jail maintenance. According to the policy, only the excess revenues are allocated for jail maintenance, and programs will continue to have funding priority over jail maintenance as required by the State of California Penal Code Section 4025.

The Inmate Welfare Commission (IWC) oversees the expenditures for inmate programs, including but not limited to educational, rehabilitative and other expenditures for the welfare and benefit of the inmates. The Sheriff's Correctional Services Division, County Counsel representative, and Budget Authority oversee the expenditures for jail maintenance.

B. Basis of Accounting

The governmental fund financial statement is presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

NOTE I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation

The IWF is reported as a special revenue governmental type fund of the County of Los Angeles. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Governmental funds are presented using the flow of current financial resources measurement focus. Generally this means only current assets and current liabilities are included on the balance sheet. Governmental fund operating statements focus on measuring changes in financial position, rather than net income. The operating statement present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. The unreserved fund balance is a measurement of available spendable resources.

D. Comparative Data

Comparative total data for the prior fiscal year has been presented in certain of the accompanying financial statements in order to provide an understanding of changes in the IWF's financial position and operations. Also, certain prior fiscal year amounts have been reclassified to conform with the current fiscal year financial statement presentations.

E. Concentration of Sources of Revenues

The majority of the IWF's revenues are derived from commissions from a few telephone and vending machine companies. For the fiscal year ended June 30, 2006, the percentage of revenues received from each of the following companies to total revenues were:

Revenue Source	Percentage of total revenues received
Verizon Phone Commission	0.37%
SBC Phone Commission	34.71%
AT&T Phone Commission	3.45%
GTL Phone Commission	1.25%
PCS Phone Commission	0.48%
Canteen Commission	11.38%
Vending Machine Commission	2.27%

F. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the related reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Encumbrances

Encumbrances are estimations of cost related to unperformed contracts for goods and services. These commitments are recorded for budgetary control purposes. Encumbrances outstanding at fiscal year end are reported as a reservation of the fund balance. They represent the estimated amount of the expenditure ultimately to result if unperformed contracts in process at fiscal year end are completed. They do not constitute expenditures or estimated liabilities.

NOTE 2 EQUITY IN CASH AND POOLED INVESTMENTS

The IWF cash is included in the County's balance sheet as "Equity in Cash and Pooled Investments". The County maintains a cash and investment pool for all funds of the County and other agencies for which the County treasury is the depository. Interest earned on the pooled funds is allocated and credited to these funds quarterly. Further disclosures regarding the County's cash and investments are included in the Notes of the County's fiscal year ended June 30, 2006 Comprehensive Annual Financial Report.

NOTE 3 FUND BALANCE

Fund Balances in governmental funds are reserved for two purposes: 1) where certain amounts are legally committed for specific future uses, such as outstanding purchase orders (encumbrances), continuing appropriations, capital projects, or debt service; and 2) where assets are not available for appropriations because a.) they have been advanced to another fund; b.) they are noncurrent receivables; or c.) they have been expended as inventory or prepayments.

NOTE 4 TRANSFERS OUT

Transfers to support the operations of other funds are recorded as "Transfers Out" and are classified as "Other Financing Uses."

NOTE 5 DUE TO/FROM COUNTY OF LOS ANGELES

Due to/from County of Los Angeles consists of expenditures and revenues that have been paid or received on behalf of the Inmate Welfare Fund, by the County of Los Angeles and have not yet been transferred to the Inmate Welfare Fund as of the fiscal year ended June 30, 2006.

NOTE 6 CAPITAL OUTLAY

Capital outlay consists of expenditures of equipment, machinery, and vehicles. The Inmate Welfare Fund does not capitalize these expenditures, but the County of Los Angeles (which the Inmate Welfare Fund is a fund of) does capitalize capital outlays. Please see the County of Los Angeles Comprehensive Annual Financial Report for further information regarding capital outlays.

NOTE 7 SUBSEQUENT EVENTS

The Inmate Welfare Fund has an agreement with the Hacienda La Puente Unified School District (District) to establish, supervise, and maintain classes for adult education and to provide testing, guidance, and educational vocational services at the Sheriff's Facilities. The Inmate Welfare Fund makes quarterly payments throughout the fiscal year (based on an estimated amount determined prior to the start of the fiscal year) to reimburse the District for the cost of services provided for inmates. After the fiscal year end, the District determines the actual amount expended for the Inmate Welfare Fund and takes this difference and adds in the amount that the State reimbursed the District for the Average Daily Attendance (ADA) of the inmates. This amount is refunded back to the Inmate Welfare Fund. The 2005/2006 refund, which consisted of $8,142,418, was paid to the Inmate Welfare Fund on November 2, 2007.

NOTE 8 COMMITMENTS

The Inmate Welfare Fund has an agreement with the Hacienda La Puente Unified School District (District) to establish, supervise, and maintain classes for adult education and to provide testing, guidance, and educational vocational services at the Sheriff's Facilities. The Inmate Welfare Fund makes quarterly payments throughout the fiscal year (based on an estimated amount determined prior to the start of the fiscal year) to reimburse the District for the cost of services provided for inmates. After the fiscal year end, the District determines the actual amount expended for the Inmate Welfare Fund and takes this difference and adds in the amount that the State reimbursed the District for the Average Daily Attendance (ADA) of the inmates.

The Inmate Welfare Fund has a contract with AT&T in which it receives a an annual amount for telephone commissions which is based on the contract terms. For the period December 13, 2005 to December 12, 2006, the annual contract amount was $17,000,500.

The Inmate Welfare Fund has a contract with a third party that provides goods (food and other products purchased by inmates) in which the vendor sells goods to the inmates and provides a commission based on the total sales to the Inmate Welfare Fund.

NOTE 9 ADJUSTMENTS TO eCAPS

The following adjustments were booked to the financial statements of the Inmate Welfare Fund but were not included in eCAPS:

Account Name	Description
Deferred Revenue	Increase of $8,026,929 due to an overstatement of revenues
Commissions	Decrease of $8,026,929 due to an overstatement of revenues
Accounts Payable	Increase of $397,182 due to an understatement of expenditures
Maintenance-structures, improvements, grounds	Increase of $172,552 due to an understatement of expenditures
Professional and specialized services	Increase of $224,630 due to an understatement of expenditures

MOSS, LEVY & HARTZHEIM LLP
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS
RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA

9107 WILSHIRE BLVD., SUITE 400
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.273.1689
www.mlhcpas.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Wendy L. Watanabe
Auditor-Controller
County of Los Angeles
Los Angeles, California

We have audited the accompanying balance sheet of the County of Los Angeles Sheriff's Department Inmate Welfare Fund (IWF) and the related statement of revenues, expenditures, and changes in fund balance as of and for the fiscal year ended June 30, 2006, and have issued our report thereon dated April 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the IWF's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We noted certain other matters that we reported to the County of Los Angeles in a separate report dated April 30, 2009.

The Inmate Welfare Fund's responses to the findings identified in our audit are described in a separate report dated April 30, 2009. We did not audit the IWF's responses and, accordingly, we express no opinion on them.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the IWF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and are reported in a separate issued report dated April 30, 2009.

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This report is intended for the information and use of the Management of the County of Los Angeles, the Board of Supervisors, Auditor Controller (Audits Division), and the Inmate Welfare Commission and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
April 30, 2009

COUNTY OF LOS ANGELES
SHERIFF'S DEPARTMENT
INMATE WELFARE FUND
FINANCIAL STATEMENTS

JUNE 30, 2007

COUNTY OF LOS ANGELES SHERIFF'S DEPARTMENT INMATE WELFARE FUND
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MOSS, LEVY & HARTZHEIM LLP
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS
RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA

9107 WILSHIRE BLVD., SUITE 400
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.273.1689
www.mlhcpas.com

INDEPENDENT AUDITOR'S REPORT

Wendy L. Watanabe
Auditor-Controller
County of Los Angeles
Los Angeles, California

We have audited the accompanying balance sheet of the County of Los Angeles Sheriff's Department Inmate Welfare Fund ("IWF"), a fund of the County of Los Angeles, as of and for the fiscal year ended June 30, 2007 and the related statement of revenues, expenditures, and changes in fund balance, which collectively comprise the financial statements as listed in the table of contents. These financial statements are the responsibility of the IWF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the IWF as of June 30, 2007, and the changes in financial position for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2009, on our consideration of the IWF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
April 30, 2009

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COUNTY OF LOS ANGELES SHERIFF'S DEPARTMENT INMATE WELFARE FUND
BALANCE SHEET
JUNE 30, 2007
WITH COMPARATIVE TOTALS AS OF JUNE 30, 2006

	2007	2006
ASSETS		
Equity in cash and pooled investments	$ 53,878,670	$ 71,581,774
Interest receivable	488,390	531,371
Due from County of Los Angeles	629,629	573,603
TOTAL ASSETS	$ 54,996,689	$ 72,686,748
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	$ 1,764,156	$ 1,194,694
Deferred revenue	5,948,921	8,026,929
Due to County of Los Angeles	12,233,719	8,585,096
TOTAL LIABILITIES	19,946,796	17,806,719
FUND BALANCE		
Reserved for encumbrances	6,778,279	8,731,790
Unreserved:		
Undesignated	28,271,614	46,148,239
TOTAL FUND BALANCE	35,049,893	54,880,029
TOTAL LIABILITIES AND FUND BALANCE	$ 54,996,689	$ 72,686,748

SEE NOTES TO FINANCIAL STATEMENTS

COUNTY OF LOS ANGELES SHERIFF'S DEPARTMENT INMATE WELFARE FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	2007	2006
REVENUES		
Commissions	$ 20,353,179	$ 22,215,968
Hacienda La Puente Education Program refund		16,646,788
Investment income	3,164,457	2,319,578
Miscellaneous	109,677	24,220
TOTAL REVENUES	23,627,313	41,206,554
EXPENDITURES		
Clothing and personal supplies	1,757,292	254,538
Communications and network	102,239	354,476
Postage	4,422	5,824
Food		1,769
Household expenses	56,008	132,924
Maintenance - equipment	122,688	205,084
Maintenance - structures, improvements, grounds	8,137,271	4,676,340
Miscellaneous	8,704	7,913
Memberships	211,416	246,030
Professional and specialized services	14,158,893	12,003,644
Supplies and equipment expense	1,117,767	509,866
Office expense	226,881	112,002
Equipment rental	35,277	19,491
Departmental expenses	5,088,917	1,669,690
Travel	69,624	53,187
Merchandise for resale	968,923	883,479
Capital outlay	1,498,982	906,159
TOTAL EXPENDITURES	33,565,304	22,042,416
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(9,937,991)	19,164,138
OTHER FINANCING SOURCES (USES)		
Transfers out to County of Los Angeles	(9,892,145)	(7,053,849)
TOTAL OTHER FINANCING SOURCES (USES)	(9,892,145)	(7,053,849)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(19,830,136)	12,110,289
Fund Balance, Beginning of Fiscal Year	54,880,029	42,769,740
Fund Balance, End of Fiscal Year	$ 35,049,893	$ 54,880,029

SEE NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Sheriff's Inmate Welfare Fund (IWF) have been prepared in conformity with accounting principles generally accepted in the United States of America. The accounting policies of the County of Los Angeles Sheriff's Department Inmate Welfare Fund (IWF) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant of such policies:

A. Financial Reporting Entity

The County of Los Angeles Sheriff's Department Inmate Welfare Fund (IWF) was established pursuant to the State of California Penal Code Section 4025. The major sources of revenues of the IWF are composed of commissions received from contracted telephone services and commissary sales and vending machine sales which are for the inmates' use and benefit. Additionally, the Inmate Welfare Fund receives reimbursement from Hacienda La Puente Unified School District for ADA (average daily attendance) money that it receives for inmates that receive educational services. The expenditures of the IWF are governed by the California Penal Code Section 4025 which states that "The money and property in the inmate welfare fund shall be expended by the sheriff primarily for the benefit, education, and welfare of the inmates confined within the jail. Any funds that are not needed for the welfare of the inmates may be expended for the maintenance of county jail facilities. Maintenance of county jail facilities may include, but is not limited to, the salary and benefits of personnel used in the programs to benefit the inmates, including, but not limited to, education, drug and alcohol treatment, welfare, library, accounting, and other programs deemed appropriate by the sheriff."

Starting with the fiscal year beginning July 2000, fifty-one percent of the annual IWF revenue was assigned solely and exclusively to programs for the benefit, welfare, rehabilitation, and education of jail inmates. The remaining forty-nine percent of the annual IWF revenue is earmarked solely for jail maintenance. According to the policy, only the excess revenues are allocated for jail maintenance, and programs will continue to have funding priority over jail maintenance as required by the State of California Penal Code Section 4025.

The Inmate Welfare Commission (IWC) oversees the expenditures for inmate programs, including but not limited to educational, rehabilitative and other expenditures for the welfare and benefit of the inmates. The Sheriff's Correctional Services Division, County Counsel representative, and Budget Authority oversee the expenditures for jail maintenance.

B. Basis of Accounting

The governmental fund financial statement is presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation

The IWF is reported as a special revenue governmental type fund of the County of Los Angeles. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Governmental funds are presented using the flow of current financial resources measurement focus. Generally this means only current assets and current liabilities are included on the balance sheet. Governmental fund operating statements focus on measuring changes in financial position, rather than net income. The operating statement present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. The unreserved fund balance is a measurement of available spendable resources.

D. Comparative Data

Comparative total data for the prior fiscal year has been presented in certain of the accompanying financial statements in order to provide an understanding of changes in the IWF's financial position and operations. Also, certain prior fiscal year amounts have been reclassified to conform with the current fiscal year financial statement presentations.

E. Concentration of Sources of Revenues

The majority of the IWF's revenues are derived from commissions from a few telephone and vending machine companies. For the fiscal year ended June 30, 2007, the percentage of revenues received from each of the following companies to total revenues were:

Revenue Source	Percentage of total revenues received
AT&T Phone Commission	63.53%
Canteen Commission	16.82%
Vending Machine Commission	5.79%

F. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the related reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Encumbrances

Encumbrances are estimations of cost related to unperformed contracts for goods and services. These commitments are recorded for budgetary control purposes. Encumbrances outstanding at fiscal year end are reported as a reservation of the fund balance. They represent the estimated amount of the expenditure ultimately to result if unperformed contracts in process at fiscal year end are completed. They do not constitute expenditures or estimated liabilities.

NOTE 2 EQUITY IN CASH AND POOLED INVESTMENTS

The IWF cash is included in the County's balance sheet as "Equity in Cash and Pooled Investments". The County maintains a cash and investment pool for all funds of the County and other agencies for which the County treasury is the depository. Interest earned on the pooled funds is allocated and credited to these funds quarterly. Further disclosures regarding the County's cash and investments are included in the Notes of the County's fiscal year ended June 30, 2007 Comprehensive Annual Financial Report.

NOTE 3 FUND BALANCE

Fund Balances in governmental funds are reserved for two purposes: 1) where certain amounts are legally committed for specific future uses, such as outstanding purchase orders (encumbrances), continuing appropriations, capital projects, or debt service; and 2) where assets are not available for appropriations because a.) they have been advanced to another fund; b.) they are noncurrent receivables; or c.) they have been expended as inventory or prepayments.

NOTE 4 TRANSFERS OUT

Transfers to support the operations of other funds are recorded as "Transfers Out" and are classified as "Other Financing Uses."

NOTE 5 DUE TO/FROM COUNTY OF LOS ANGELES

Due to/from County of Los Angeles consists of expenditures and revenues that have been paid or received on behalf of the Inmate Welfare Fund, by the County of Los Angeles and have not yet been transferred to the Inmate Welfare Fund as of the fiscal year ended June 30, 2007.

NOTE 6 CAPITAL OUTLAY

Capital outlay consists of expenditures of equipment, machinery, and vehicles. The Inmate Welfare Fund does not capitalize these expenditures, but the County of Los Angeles (which the Inmate Welfare Fund is a fund of) does capitalize capital outlays. Please see the County of Los Angeles Comprehensive Annual Financial Report for further information regarding capital outlays.

NOTE 7 SUBSEQUENT EVENTS

The Inmate Welfare Fund has an agreement with the Hacienda La Puente Unified School District (District) to establish, supervise, and maintain classes for adult education and to provide testing, guidance, and educational vocational services at the Sheriff's Facilities. The Inmate Welfare Fund makes quarterly payments throughout the fiscal year (based on an estimated amount determined prior to the start of the fiscal year) to reimburse the District for the cost of services provided for inmates. After the fiscal year end, the District determines the actual amount expended for the Inmate Welfare Fund and takes this difference and adds in the amount that the State reimbursed the District for the Average Daily Attendance (ADA) of the inmates. This amount is refunded back to the Inmate Welfare Fund. The 2006/2007 refund, which consisted of $2,489,180, was paid to the Inmate Welfare Fund on April 30, 2008. This amount does not include the average daily attendance reimbursement that the District received from the State which will still need to be refunded back to the Inmate Welfare Fund.

NOTE 8 COMMITMENTS

The Inmate Welfare Fund has an agreement with the Hacienda La Puente Unified School District (District) to establish, supervise, and maintain classes for adult education and to provide testing, guidance, and educational vocational services at the Sheriff's Facilities. The Inmate Welfare Fund makes quarterly payments throughout the fiscal year (based on an estimated amount determined prior to the start of the fiscal year) to reimburse the District for the cost of services provided for inmates. After the fiscal year end, the District determines the actual amount expended for the Inmate Welfare Fund and takes this difference and adds in the amount that the State reimbursed the District for the Average Daily Attendance (ADA) of the inmates.

The Inmate Welfare Fund has a contract with AT&T in which it receives a an annual amount for telephone commissions which is based on the contract terms. For the period December 13, 2006 to December 12, 2007, the annual contract amount was $12,932,438.

The Inmate Welfare Fund has a contract with a third party that provides goods (food and other products purchased by inmates) in which the vendor sells goods to the inmates and provides a commission based on the total sales to the Inmate Welfare Fund.

NOTE 9 ADJUSTMENTS TO eCAPS

The following adjustments were booked to the financial statements of the Inmate Welfare Fund but were not included in the eCAPS:

Account Name	Description
Interest Receivable	Increase of $488,390 due to an understatement of interest revenue
Investment Income	Increase of $488,390 due to an understatement of interest revenue
Accounts Payable	Increase of $70,411 due to an understatement of expenditures
Merchandise for Resale	Increase of $70,411 due to an understatement of expenditures
Deferred Revenue	Increase of $5,948,921 due to an overstatement of revenues
Commissions	Decrease of $5,948,921 due to an overstatement of revenues

MOSS, LEVY & HARTZHEIM LLP
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PARTNERS
RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA

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FAX: 310.273.1689
www.mlhcpas.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Wendy L. Watanabe
Auditor-Controller
County of Los Angeles
Los Angeles, California

We have audited the accompanying balance sheet of the County of Los Angeles Sheriff's Department Inmate Welfare Fund (IWF) and the related statement of revenues, expenditures, and changes in fund balance as of and for the fiscal year ended June 30, 2007, and have issued our report thereon dated April 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the IWF's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the IWF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the IWF's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the IWF's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the IWF's financial statements that is more than inconsequential will not be prevented or detected by the IWF's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the IWF's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain other matters that we reported to the County of Los Angeles in a separate report dated April 30, 2009.

The Inmate Welfare Fund's responses to the findings identified in our audit are described in a separate report dated April 30, 2009. We did not audit the IWF's responses and, accordingly, we express no opinion on them.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the IWF are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are reported in a separate issued report dated April 30, 2009.

This report is intended for the information and use of the Management of the County of Los Angeles, the Board of Supervisors, Auditor Controller (Audits Division), and the Inmate Welfare Commission and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
April 30, 2009