

OFFICE OF THE INSPECTOR GENERAL

MATTHEW L. CATE, INSPECTOR GENERAL



**REVIEW OF
INMATE TELEPHONE REVENUES AT THE
VICTOR VALLEY MODIFIED COMMUNITY CORRECTIONAL FACILITY
CALIFORNIA DEPARTMENT OF CORRECTIONS**

NOVEMBER 2004



ARNOLD SCHWARZENEGGER, GOVERNOR



November 15, 2004

Jeanne Woodford, Director
California Department of Corrections
P.O. Box 942883
Sacramento, CA 94283-0001

Re: Special Review of Inmate Telephone Revenues at the Victor Valley Modified Community Correctional Facility

The enclosed report presents the results of the Office of the Inspector General's special review of the inmate telephone revenues derived from collect calls made by inmates at the Victor Valley Modified Community Correctional Facility in Adelanto, California. This special review, conducted in August 2004, was performed under the Inspector General's oversight responsibilities delineated in *California Penal Code* Section 6126 and at the mutual request of the California Department of Corrections and Terry Moreland, Chief Executive Officer of Maranatha Corrections, LLC.

The special review found that Maranatha Corrections and Moreland Family, LLC received \$1,624,292.16 in inmate telephone revenues at the Victor Valley Modified Community Correctional Facility under contracts with Global Tel*Link Corporation through June 30, 2004.

The Office of the Inspector General, aware that the Department of Corrections and Terry Moreland disagree concerning the contractual rights to ownership and control of these inmate telephone revenues, declines to comment on the relative merit of either party's position. Instead, the Office of the Inspector General recommends that future contracts or contract renewals between the Department of Corrections and community correctional facilities include language specifically addressing the disposition of inmate telephone revenues received by the community correctional facilities. Such disposition should include one of the following options:

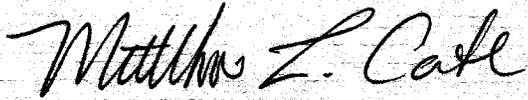
- Remitting inmate telephone revenues to the state general fund, consistent with the disposition of revenues received through contracts for inmate telephone services provided at state-operated prisons and youth correctional facilities; or
- Including inmate telephone revenues as a source of funding for the operation of community correctional facilities through the state budget process.

Arnold Schwarzenegger, Governor

Director Woodford
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Thank you for the full cooperation extended by the Department of Corrections. Please call me if you have questions concerning this report.

Sincerely,

A handwritten signature in black ink that reads "Matthew L. Cate". The signature is written in a cursive style with a large, stylized "M" and "C".

MATTHEW L. CATE
Inspector General

Enclosure

cc: Bruce Slavin, General Counsel, Youth and Adult Correctional Agency

OFFICE OF THE INSPECTOR GENERAL



SPECIAL REVIEW OF INMATE TELEPHONE REVENUES AT THE VICTOR VALLEY MODIFIED COMMUNITY CORRECTIONAL FACILITY

NOVEMBER 15, 2004

This report presents the results of a special review of the inmate telephone revenues derived from collect calls made by inmates at the Victor Valley Modified Community Correctional Facility in Adelanto, California.¹ This special review, performed at the mutual request of the California Youth and Adult Correctional Agency and Terry Moreland, chief executive officer, Maranatha Corrections, LLC, was limited to identifying total inmate telephone revenues at the Victor Valley Modified Community Correctional Facility from the facility's inception through June 30, 2004 and to examining any documentation relevant to the disposition of those revenues.

Terry Moreland provided full access to all information, and his staff fully cooperated with the Office of the Inspector General during the examination of the records at the business offices of Maranatha Corrections, LLC. The Youth and Adult Correctional Agency and the Department of Corrections also provided full cooperation.

The Office of the Inspector General found that Maranatha Private Corrections and Moreland Family, LLC received \$1,624,292.16 in inmate telephone revenues at the Victor Valley Modified Community Correctional Facility under contracts with Global Tel*Link Corporation through June 30, 2004.

BACKGROUND

California Penal Code sections 6250 through 6256, enacted in 1965, authorize the California Department of Corrections to establish, operate, and contract for community correctional centers to house, supervise, and counsel inmates. Twelve such community correctional facilities currently exist statewide. Six of these are public facilities operated by local government agencies, while the other six are private facilities operated by private contractors. The Community Correctional Facilities Administration of the Department of Corrections Institutions Division is responsible for contractual and operational administration of all such state-contracted community correctional facilities.

The Department of Corrections contracts with Maranatha Corrections, LLC (previously, Maranatha Production Company, LLC) to provide housing, sustenance, supervision, and

¹ The facility name that appears in the contract between the Department of Corrections and Maranatha Corrections, LLC is Victor Valley *Medium* Community Correctional Facility. However, the department more commonly refers to Victor Valley and similar facilities as "*modified* community correctional facilities."

other services for up to 500 inmates meeting certain criteria at the Victor Valley Modified Community Correctional Facility in Adelanto, California. Generally, these inmates include Level I and Level II inmates without serious in-custody disciplinary histories, who have 18 months or fewer remaining to serve. Under certain circumstances, Level III inmates may also be housed at this facility.

In accordance with California Code of Regulations, Title 15, section 3282, all community correctional facility contractors are required to provide pay telephones for inmates who are permitted to make collect calls. Contractors are also required to provide inmate telephone systems sufficient to monitor and record all inmate telephone calls. Community correctional facility contractors contract with private telephone service providers for this service. The telephone service provider compensates the facility contractor with a percentage of the revenues generated by the collect calls.

Maranatha Corrections, LLC and the Department of Corrections are engaged in a contract dispute regarding ownership of the revenues collected under the contracts between Moreland-owned entities and the telephone service provider, Global Tel*Link Corporation (“Global Tel*Link”). Generally, Terry Moreland maintains that the revenues generated under the telephone service contract are not subject to Department of Corrections control because the Department of Corrections is not a party to the agreement with Global Tel*Link to provide telephone services at the Victor Valley Modified Community Correctional Facility and because the contract between Maranatha Corrections, LLC and the Department of Corrections does not specifically discuss “Inmate Telephone Revenue Funds.” The Department of Corrections, however, takes the position that the revenues generated under the telephone service contract are program revenues subject to the reporting requirements of the department’s contract with Maranatha Corrections, LLC, and that pursuant to the contract any balance of such revenues must revert to the Department of Corrections.

OBJECTIVES, SCOPE, AND METHODOLOGY

The purpose of this special review was to identify the total amount of inmate telephone revenues received by any Moreland-owned entities from contracts for services at the Victor Valley Modified Community Correctional Facility since the inception of the contract through June 30, 2004 and to examine any documentation relevant to disbursement of the funds.

In conducting the review, the Office of the Inspector General performed the following procedures during the period of August 25-27, 2004:

- Obtained a summary of inmate telephone revenues received under contract with Global Tel*Link, compiled by Terry Moreland.
- Reviewed the contracts between Global Tel*Link and Moreland-owned entities for providing inmate telephone services at the Victor Valley Modified Community Correctional Facility.
- Interviewed Terry Moreland and other key employees and officers of Maranatha Corrections, LLC, and Moreland Family LLC.

- Traced inmate telephone revenues received by Moreland-related entities to bank deposit statements.
- Examined remittance advice information from the telephone service provider, Global Tel*Link.
- Obtained a written confirmation from Global Tel*Link confirming the amounts paid to Moreland-related entities.
- Summarized disbursements identified by Maranatha's chief financial officer as expenditures made for the benefit of the Victor Valley Modified Community Correctional Facility or its inmate programs.

FINDINGS

On November 17, 1997, Moreland Family, LLC signed a five-year contract with Global Tel*Link to provide inmate telephone services at the Victory Valley Modified Community Correctional Facility. Approximately one week later, on November 24, 1997, Maranatha Private Corrections² signed a five-year contract with Global Tel*Link to provide identical services at the same facility. Terry Moreland told the Office of the Inspector General that he could not recall the necessity for the second contract. The November 24, 1997 contract apparently supercedes the November 17, 1997 contract, as the subsequent checks from Global Tel*Link were made payable to Maranatha Private Corrections, and the services to be provided and the location at which they were to be provided remained the same. The differences between the two contracts were as follows:

- The name of the entity receiving the services was changed;
- The description of the equipment to be delivered was changed;
- The November 17, 1997 contract provided for a 33 percent commission, but the number had been manually changed to 45 percent. The November 24, 1997 contract provided for a 45 percent commission.

A third contract with Global Tel*Link, signed on April 12, 2002, superseded the November 24, 1997 contract and remains in effect. The latest contract was signed by Terry Moreland as president of Moreland Family, LLC and has a term of eight years. The contract provides for compensation to Moreland Family, LLC of 45 percent of the gross revenue billed for all telephones covered by the agreement. Under this agreement, Moreland Family, LLC received a signing bonus of \$100,000. The contract provides that if the agreement is cancelled by Moreland Family, LLC before the end of the eight-year term, a pro-rata amount of the \$100,000 will be refunded to Global Tel*Link as shown below:

Cancellation Year 1:	\$100,000 refund to Global Tel*Link
Cancellation Year 2:	\$ 87,500 refund to Global Tel*Link
Cancellation Year 3:	\$ 75,000 refund to Global Tel*Link
Cancellation Year 4:	\$ 62,500 refund to Global Tel*Link

² Terry Moreland told the Office of the Inspector General that Maranatha Private Corrections was the previous name of Maranatha Production Company, later to be known as Maranatha Corrections, LLC.

Cancellation Year 5:	\$ 50,000 refund to Global Tel*Link
Cancellation Year 6:	\$ 37,500 refund to Global Tel*Link
Cancellation Year 7:	\$ 25,000 refund to Global Tel*Link
Cancellation Year 8:	\$ 12,500 refund to Global Tel*Link

Under the Global Tel*Link contracts, Maranatha Private Corrections and Moreland Family, LLC received \$1,624,292.16 in revenues generated for the period from the inception of the first contract on November 17, 1997 through June 30, 2004. That amount agrees with a confirmation letter provided to the Office of the Inspector General by Global Tel*Link. The \$1,624,292.16 consists of monthly commissions of 45 percent of billings, plus a \$100,000 signing bonus (see **Schedule 1**, attached).

Terry Moreland told the Office of the Inspector General that he does not report disbursements from these accounts to the Department of Corrections as “program costs” as defined by the contract between Maranatha Corrections, LLC and the department. He also told the Office of the Inspector General that he reported the inmate telephone revenues on the respective income tax returns of Maranatha Corrections, LLC and Moreland Family, LLC.

The inmate telephone revenues were deposited into bank accounts and combined with other sources of revenues from Moreland-owned enterprises. Disbursements from these accounts were not specifically identified as having been paid from the inmate telephone revenues. Because the telephone revenues were not accounted for separately, they lost their specific identity after being deposited. The Office of the Inspector General was therefore unable to determine the ultimate disposition of the telephone revenues or to quantify their remaining balance separately from other funds deposited to the same bank accounts.

Notwithstanding Terry Moreland’s position that the Department of Corrections has no legal claim to the inmate telephone revenues, Maranatha’s chief financial officer identified for the Office of the Inspector General the following disbursements made directly from the Maranatha Private Corrections – Phone Account to benefit the Victor Valley Modified Community Correctional Facility and its programs:

Purchase of land adjacent to Victor Valley MCCF in Adelanto	\$110,556.17
United Prison Ministries	10,700.00
Sound system and projector for inmate use at Victor Valley MCCF	18,000.00
Instruments used in inmate music program	1,733.83
Deposited to Maranatha Corrections, LLC for use in miscellaneous inmate programs	<u>28,000.00</u>
TOTAL	\$168,990.00

Maranatha's chief financial officer also told the Office of the Inspector General that other Moreland-owned entities have disbursed significantly more than the above amounts from other accounts to benefit the Victor Valley Modified Community Correctional Facility and its programs.

CONCLUSION

The Office of the Inspector General is aware that the Department of Corrections and Terry Moreland disagree concerning the contractual rights to ownership and control of the inmate telephone revenues. The parties hold intractable and sharply divergent positions. As resolution of the matter is beyond the purview of the Office of the Inspector General, this office declines to comment on the relative strength of these positions and recommends that the parties pursue resolution of their differences according to the dispute resolution clause provided in the contract.

The Office of the Inspector General has previously raised concerns about the lack of clarity in the ownership of the inmate telephone revenues received by community correctional facilities through subcontracts with telecommunications service providers. The issue was discussed in reports issued in October 2001 and January 2002 with respect to audits of the Leo Chesney Community Correctional Facility and the Folsom Community Correctional Facility, respectively³, and was reiterated in correspondence to the previous director of the California Department of Corrections on March 25, 2002, and September 30, 2003.⁴

The Office of the Inspector General's September 2003 inquiry into this matter found that community correctional facilities annually collect more than \$2.7 million in inmate telephone revenues. The inquiry also found that the inmate telephone revenues were used for the following purposes: (1) to pay for the costs associated with the inmate telephone system; (2) to offset budgeted education and pre-release costs; (3) to offset inmate welfare fund deficiencies; and (4) to fund program staff and one-time costs to improve facility programs. As some of these costs are the responsibility of the community correctional facilities, using inmate telephone revenues to offset the costs enables contractors to increase profits or to receive unbudgeted augmentations to the program.

This practice circumvents state budget control and oversight, as neither the governor nor the legislature has considered and approved the funds through the budget process. In addition, the practice distorts the true cost of operating the community correctional facilities, which is especially significant for comparing costs between state institutions and contract facilities.

Similar inmate telephone revenues are earned by the state-operated prisons and youth correctional facilities. The Department of General Services informed the Office of the Inspector General that by contract, inmate telephone revenues of approximately \$26 million per year from state-operated correctional institutions are paid to the state general fund.

³ Copies of these audit reports are available on the Office of the Inspector General's website at www.oig.ca.gov.

⁴ Copies of these letters are attached to this special review.

While the current Department of Corrections administration is not responsible for drafting the Victor Valley Modified Community Correctional Facility contract, the Office of the Inspector General recommends that future contracts or contract renewals between the Department of Corrections and community correctional facilities include language specifically addressing the disposition of inmate telephone revenues received by the community correctional facilities. Such disposition should include one of the following options:

- Remitting inmate telephone revenues to the state general fund, consistent with the disposition of revenues received through contracts for inmate telephone services provided at state-operated prisons and youth correctional facilities, or
- Including inmate telephone revenues as a source of funding for the operation of community correctional facilities through the state budget process.

ATTACHMENTS

Memorandum

Date: March 25, 2002

To: EDWARD S. ALAMEIDA, Jr. Director
California Department of Corrections

From: STEVE WHITE
Inspector General

Subject: INMATE WELFARE FUND AND INMATE TELEPHONE REVENUES

In October 2001, the Office of the Inspector General issued a report of our audit of the Leo Chesney Community Correctional Facility in Live Oak, California. In Finding 3 of our report, we cited lack of guidelines governing the use of inmate telephone revenues at community correctional facilities and recommended that the department clearly define the ownership and use of these revenues. We further specified that the new guidelines should address whether the balances in inmate telephone revenues should be reverted to the California Department of Corrections or the state general fund or remain with the community correctional facility operator upon termination of the contract.

We would like to reiterate our recommendations in light of the fact that your department is anticipating termination of contracts with five community correctional facilities. The Office of the Inspector General recently obtained the financial statements of the five community correctional facilities scheduled for closure and found the following cash balances in the inmate telephone revenues of the facilities as of December 31, 2001:

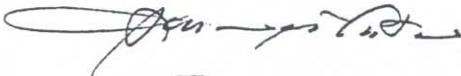
Leo Chesney Community Correctional Facility	\$324,388.14
Mesa Verde Community Correctional Facility	79,112.76
Baker Community Correctional Facility	68,402.89
Eagle Mountain Community Correctional Facility	377,238.19
McFarland Community Correctional Facility	106,522.60
Total	\$955,664.58

As the amount involved is substantial, please direct your staff to closely review this matter to ensure proper disposition of inmate telephone revenues at the five community correctional facilities in question.

I would appreciate hearing from you concerning the final disposition of this matter.

Memorandum

Date: September 30, 2003

To: EDWARD S. ALAMEIDA, JR., Director
California Department of CorrectionsFrom: STEVE WHITE
Inspector General 

Subject: INMATE TELEPHONE REVENUES

More than a year ago, my office issued reports on reviews of the Folsom and Leo Chesney Community Correctional Facilities. In those reports, we raised concerns about lack of clarity in the ownership of the inmate telephone revenues received by the community correctional facilities through subcontracts with telecommunications service providers. I reiterated our concerns in a memorandum to you dated March 25, 2002, noting that the five community correctional facilities scheduled for closure had a combined cash balance of close to \$1 million in inmate telephone revenues. In a response dated May 17, 2002, you stated that the Department of Corrections was in the process of negotiating amendments with the community correctional facilities and that inmate telephone revenues would be an integral part of the amendment process.

Recently, we conducted a follow-up inquiry and found that little has been done in this matter and that the subject contracts have not been amended to address our previously reported concerns. Moreover, the question of who is entitled to the inmate telephone revenues remains unanswered. Meanwhile, according to information furnished by your staff, as of June 30, 2003, twelve of the sixteen community correctional facilities are holding more than \$7.1 million in accumulated inmate telephone revenues. The other four contractors either refused to provide an accounting or have yet to provide the information. It is evident that there is little control and accountability over inmate telephone revenues being held by the community correctional facilities.

Our inquiry also found that the community correctional facilities annually collect over \$2.7 million in inmate telephone revenues. The inmate telephone revenues are being used to: (1) pay for the costs associated with the inmate telephone system; (2) offset budgeted education and pre-release costs; (3) offset Inmate Welfare Fund deficiencies; and (4) fund program staff and/or one-time costs to improve facility programs. As some of these costs are the responsibility of the community correctional facilities, these revenues increase the contractors' profits by allowing them to offset their costs or to provide unbudgeted augmentations to the program.

We recognize that community correctional facilities may have not received adequate cost of living adjustments for several years and that inmate telephone revenues have supplemented some of those differences. We also understand that community correctional facilities have been instructed to obtain approval from your department before expending these funds.

However, this practice circumvents state budget control and oversight since neither the Governor nor Legislature has considered and approved these funds through the budget process. In addition, the practice distorts the true cost of operating the community correctional facilities, which is especially important when comparing costs between state institutions and contract facilities.

Historically, the California Legislature has expressed keen interest in inmate telephone revenues at state institutions by requiring that those revenues revert to the state's General Fund. In the absence of meaningful negotiations, your department's March 2, 2001 legal opinion on the subject of the usage and ownership of inmate telephone revenues at the community correctional facilities gives you the rationale for initiating action to remit both the accumulated inmate telephone revenues and the on-going annual revenues to the state's General Fund.

I urge you to address this matter immediately.

SW:JC:nc