

# REPORT HIGHLIGHTS

## Inmate Canteen and Banking Programs

Performance Audit, June 2018

Department of Corrections

### CONCERN

The Department lacks adequate controls over price setting and procurement practices for the Canteen and policies to ensure Canteen profits are used in accordance with statute. The lack of controls and policies could lead to the Canteen paying more than necessary for some items, inequitable pricing, reductions in the amounts inmates have for other purposes (such as to pay off debts or save), and the Canteen's revenue not covering costs.

### KEY FINDINGS

- The Department's Canteen Account revenues (averaging about \$18 million per year) were sufficient to cover the costs of operating the Canteen (averaging less than about \$15 million per year) for Fiscal Years 2012 through 2017.
- The Department does not have a markup policy for Canteen items, as required by Department regulation. For 6 of the 9 categories of items regularly sold through the Canteen, the average markup ranged from 18 to 43 percent and individual items within categories varied even more widely. For example, in the medical category, items were priced from 49 percent below cost to 72 percent above. Further, the Department does not use complete cost information to set Canteen prices, does not retain cost data for some items, and has not set profitability targets for the Canteen.
- The Department does not have a consistent process to consider price when selecting Canteen vendors, as required by regulation, and had no records to show consideration of product price or other factors required by regulation (product quality, availability, and security issues) when selecting vendors. Further, the Department excludes Canteen purchases from the Colorado Procurement Code but did not substantiate its decision in writing, as required by statute.
- The Department spends Canteen profits for inmate benefit programs, as required by statute, but has decreased the use of profits for this purpose and increased the balance in its Canteen Account. In Fiscal Year 2017 the Department spent \$1.4 million of profits for inmate benefit programs, down from \$2.6 million in Fiscal Year 2015, increased General Fund spending for the programs from \$18.8 million to \$22.6 million over the same period, and grew the balance in the Canteen account to about \$8.4 million as of June 30, 2017, more than twice the balance as of June 30, 2012. The Department reported it does not have a plan for using the balance in the Canteen Account.

### BACKGROUND

The Department of Corrections (Department), operates a Canteen for inmates. The mission of the Canteen includes offering high quality, fairly-priced merchandise to inmates.

Under statute, the Canteen must generate sufficient revenue to fund all expenses of the Canteen and produce a reasonable profit, and the profits are to be expended for programs to provide educational, recreational, and social benefits to inmates (inmate benefit programs).

The Department groups Canteen merchandise into 11 categories – greeting cards, faith/hobby, food, beverages, medical, hygiene, female products, miscellaneous, catalog (non-everyday items), special order items (products typically available for a brief period), and necessities. Over Fiscal Years 2015 through 2017, inmates spent \$53 million purchasing over 40 million units of 1,400 unique items from the Canteen.

### KEY RECOMMENDATIONS

- Implement written policies to specify profitability targets, standard item markups based on complete and accurate cost information, and requirements to document pricing for all Canteen merchandise.
- Implement written policies to use a consistent, documented process to select Canteen vendors that include considering price, quality, availability, and security concerns. Complete a written determination to substantiate the Department's decision to exclude Canteen purchases from the Colorado Procurement Code.
- Implement written policies that specify when profits should be spent or accumulated and that establish Canteen Account balance targets and purposes.