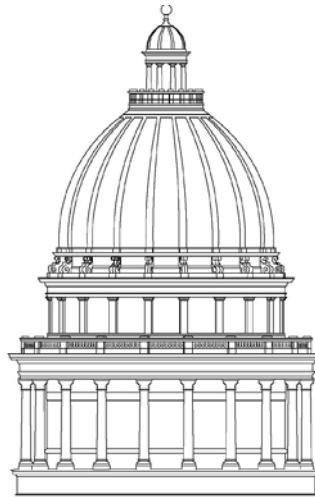


REPORT TO THE
UTAH LEGISLATURE

Number 2013-09



**An In-depth Budget Review of the
Utah Department of Corrections**

September 2013

Office of the
LEGISLATIVE AUDITOR GENERAL
State of Utah



STATE OF UTAH

Office of the Legislative Auditor General

315 HOUSE BUILDING • PO BOX 145315 • SALT LAKE CITY, UT 84114-5315
(801) 538-1033 • FAX (801) 538-1063

Audit Subcommittee of the Legislative Management Committee
President Wayne L. Niederhauser, Co-Chair • Speaker Rebecca D. Lockhart, Co-Chair
Senator Gene Davis • Representative Jennifer M. Seelig

JOHN M. SCHAFF, CIA
AUDITOR GENERAL

September 17, 2013

TO: THE UTAH STATE LEGISLATURE

Transmitted herewith is our report, **An In-depth Budget Review of the Utah Department of Corrections** (Report #2013-09). A digest is found on the blue pages located at the front of the report. The objectives and scope of the audit are explained in the Introduction.

We will be happy to meet with appropriate legislative committees, individual legislators, and other state officials to discuss any item contained in the report in order to facilitate the implementation of the recommendations.

Sincerely,

A handwritten signature in black ink that reads "John M. Schaff". The signature is stylized and cursive.

John M. Schaff, CIA
Auditor General

JMS/lm

Digest of An In-depth Budget Review of the Utah Department of Corrections

The Utah Department of Corrections (UDC) can improve efficiency in several budget areas and save state funds. Our in-depth budget review utilized a risk-based analysis to examine concerns regarding recent funding used to give career ladder increases, plus the following functions: inmate culinary services, clinical services, jail contracting, and Utah Correctional Industries (UCI). These functions represent significant risk areas in the UDC budget's four appropriation line items. Note that since UDC administration changed in January 2013, much of the audit focuses on that administration.

Pay Increases Created From Vacant Positions. In February 2011, the Executive Director of the UDC testified to the Legislature that they could sustain no cuts without imminent early inmate release, but provided career ladder salary increases to over 500 employees four months later using funds accumulated from vacant positions. We understand that UDC believed staff were underpaid and wage increases were needed to retain employees. However, UDC should have been more transparent with the Legislature on the budget cutting options before them.

Elimination of Positions Led to Large Surplus. From fiscal years 2008 to 2011, UDC added about \$10 million to its carry-forward funds, reaching a balance of \$19.6 million. In fiscal year 2012, UDC added another \$5.6 million for a year-end carry-forward balance of \$25.2 million. Instead of signaling the imminent release of inmates, UDC should have given the Legislature greater information about its ability to cut budgets during the recessionary period.

Inmate Food Expenses Can Be Reduced Through Better Management. The Draper facility spends more to feed its inmates than the Gunnison facility. Based on our analysis from 2008 through 2012, if Draper had costs per inmate per day similar to Gunnison's costs, the facility likely would have reduced its overall costs by an average of \$1 million annually (\$5 million over the last five years).

Second Market Buys Are Currently Halted Awaiting Statutorily Required Cost/Benefit Analysis. State Purchasing asked UDC to stop purchasing items from the second market until a statutorily required cost/benefit analysis is completed. The cost/benefit analysis is part of new legislation enacted in the 2013 Legislative General Session. After reviewing a draft copy of this audit report, State Purchasing was satisfied with the significant cost savings potential of second market purchases and will grant a waiver allowing second market purchases after UDC makes the request.

Chapter I: Introduction

Chapter II: UDC Budget Reduction Options Not Fully Disclosed to Legislature

Chapter III: Greater Efficiencies Can Be Achieved in the Programs and Operations Budget

**Chapter IV:
Clinical Services
May Reduce Costs
Through Better
Contracting and
Pharmacy Pricing**

Our review of UDC's Division of Clinical Services (DCS) uncovered three measures that UDC can take to curb some cost increases and save as much as \$560,000 annually, as shown in the following three paragraphs.

Current Contracted Rates Are Higher Than Those of Another Utah Provider. We compared UDC's offsite outpatient medical costs with another Utah provider and found UDC's rates were 49 percent higher than the other provider's fiscal year 2013 rates. Reducing rates could lead to annual savings of approximately \$304,000.

UDC Could Save More on Certain Prescription Drug Costs. We compared UDC's pharmaceutical costs with three other Utah providers. Overall, we found UDC receives favorable pricing, but it pays significantly higher prices for some drugs. Reducing the cost of those drugs could potentially save \$167,000 annually.

UDC Should Review Ways To Automate Its Claim System. A recent UDC internal audit estimated an annual personnel cost savings of \$89,000, by switching to an electronic medical claims system. This UDC internal audit was released last year, but we have revisited the issue because its recommendation has gone unimplemented.

**Chapter V:
Current Jail
Contracting Cost
Lack Sufficient
Comparison**

State Prison Bears Costs Not Passed on to County Jails. Current lack of prison space and other factors requires county jails to house about 20 percent (or 1,500) of state inmates. In fiscal year 2013, county jails were paid \$46.85 per day to house state inmates. The cost to house a state inmate in prison in fiscal year 2013 (with capital depreciation) was \$79.44 per day. The price the UDC pays appears to be much higher than county jails, however, there are costs borne by the UDC that are not by county jails. UDC conducted a cost comparison that accounted for differences between the rates. However, a more complete analysis with accurate, comparable costs is needed to determine the actual costs of housing inmates at the county jails.

**Chapter VI:
UCI Needs
Performance
Measures**

UCI Trains Inmates but Lacks Appropriate Measures to Prepare Them for Future Employment. UCI is a self-sustaining entity, financially independent from UDC. Since 2010, the department has been self-sustaining. Despite UCI's profitability, the program lacks performance measures. During our limited review, UCI was not able to provide any statistics or measures of success for inmates who go through a UCI work program. It appears that UCI does not currently track how successful the programs are at preparing inmates for future employment. UCI should establish performance measures to track the success of programs, as well as the employment success of all inmates trained under UCI programs after they have been released from prison.

REPORT TO THE UTAH LEGISLATURE

Report No. 2013-09

An In-depth Budget Review of the Utah Department of Corrections

September 2013

Audit Performed By:

Audit Manager	Darin Underwood
Audit Supervisor	Kade Minchey
Audit Staff	Jesse Martinson Matthias Boone Jake Dinsdale

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Chapter I

Introduction

The Utah Department of Corrections (UDC) can improve efficiency in several budget areas and save state funds. Our in-depth budget review utilized a risk-based analysis to examine concerns regarding recent funding used to give career ladder increases, plus the following functions: inmate culinary services, clinical services, jail contracting, and Utah Correctional Industries (UCI). These functions represent significant risk areas in the UDC budget's four appropriation line items. The chapters of this report detail several areas where significant cost savings can be achieved.

Further, as companion audits to this in-depth budget review, we conducted two additional audits. First, *A Limited Review of Fugitives and Inmates Inappropriately Receiving Public Assistance* (report #2013-06); second, an audit, conducted on one of UDC's primary divisions, titled *A Performance Audit of the Division of Adult Probation and Parole* (report #2013-08). All three reports identify significant improvements that can be made to increase operational efficiency and effectiveness. In addition, this audit and the audit of Adult Probation and Parole (AP&P) present areas that have the potential for significant cost savings.

We note that executive administration at UDC was changed by the Governor in January 2013. At that time, the executive director resigned and a deputy director served as acting director until April 2013. Shortly thereafter, a new executive director was appointed by the Governor and later confirmed by the Utah Senate. Therefore, much of our audit focused on information and actions made under the direction of the previous administration.

UDC's Budget Has Been Fairly Consistent Over the Last Five Years

UDC's legislative appropriations have been consistent during the last five years, with the exception of 2009, as shown in Figure 1.1. In

The in-depth budget review used a risk-based analysis to evaluate UDC's career ladder increases, inmate culinary services, clinical services, jail contracting, and Utah Correctional Industries.

UDC's legislative appropriations have been fairly consistent since 2008, with the exception of 2009.

addition to Figure 1.1, please see Appendix A for further analysis and historical information on UDC’s overall budget.

Figure 1.1 UDC Appropriations vs. Expenditures for Fiscal Years 2008-2012. The appropriations and expenditures have shown that, since Fiscal Year 2009, the UDC has expended less than what they have been appropriated. Chapter II of the report discusses UDC’s carry-forward balance in more detail.

UDC Appropriations and Expenditures, 2008-2012		
Fiscal Year	Appropriations*	Expenditures**
2008	\$262,363,700	\$265,437,787
2009	\$281,757,500	\$273,132,645
2010	\$261,452,700	\$248,461,064
2011	\$261,423,400	\$252,600,662
2012	\$263,505,100	\$259,404,866

*Source: Legislative Fiscal Analyst Compendia of Budget Information, 2008-2012

**LFA also reports expenditures, but for the purposes of this report, and to ensure consistency in our numbers throughout the report, we used UDC’s expenditure numbers as those were the numbers we audited. Other reports from other sources may be different based on the accounting method used and the date the report was generated.

In 2009, the UDC had a larger than normal appropriation to help pay for a \$7.3 million 192 bed facility at Gunnison and a \$7.6 million parole violator center.

As seen in Figure 1.1, appropriations have remained relatively constant. In 2008, the differences between appropriations and expenditures can be explained by UDC expending carry-forward (nonlapsing) funds earned in prior years. The large appropriation increase in 2009 was due to one-time funding UDC received that year. According to the Legislative Fiscal Analyst’s Office, the one-time increase in 2009 went to areas such as the following:

- \$7.3 million for operation of a 192-bed facility at the Gunnison correctional facility
- \$3 million for recruitment and retention of officers
- \$7.6 million for the parole violator center
- \$4 million for jail contracting and reimbursement plus a one-time increase for prison population growth and growth among those who are admitted into county jails as a condition of probation

We focused on the expenditures of certain budget areas to verify efficiency and effectiveness at the UDC by utilizing the risk-based approach discussed in the next section.

In-depth Budget Review Methodology Is Risk-Based

This audit is the first in-depth budget review conducted by the Office of the Legislative Auditor General (OLAG). It is based on methodology developed to focus our efforts and evaluation on the highest risk areas. In 2011, the Legislature passed HB 176 (sponsored by Representative LaVar Christensen) that, with the approval of the Legislative Audit Subcommittee, directs OLAG to conduct two in-depth budget reviews annually.

Representative Christensen wrote two separate audit requests for in-depth budget reviews dated January 9, 2012. One letter requested an in-depth budget review of UDC, which was approved by the audit subcommittee on June 19, 2012. The expectation of the request and legislation to audit an entire department of state government requires more resources than the office has available. For example, only two auditors were available to work on the in-depth budget review full-time. Accordingly, we conducted a risk analysis of the department and focused specifically on budget efficiency and effectiveness in those risk areas. However, each budget chapter of the report has a companion appendix that provides additional historical information and budgetary analysis.

Budget Review Was Approved by Audit Subcommittee

House Bill 176 established *Utah Code* 36-12-15.1, which states, “The Office of Legislative Auditor General (OLAG) shall: each year perform an audit of at least two entity’s appropriations.” However, the same statute section stipulates that the requirement to conduct the audits is contingent on the Legislative Audit Subcommittee approving the budget review. The statute states, “[OLAG will] conduct the audits described in Subsection (2)(a) according to the process established for the Audit Subcommittee,” to approve and prioritize audits. The Audit Subcommittee approved this audit of UDC in June 2012.

In 2011, HB 176 directed the Office of the Legislative Auditor General to conduct two in-depth budget reviews annually, based on subcommittee approval.

A risk analysis of the UDC focused on specific budget efficiency and effectiveness areas.

Budget Review Focused On Four Risk Areas

We performed a risk-based in-depth budget review of the UDC that identified key budget areas within the department. The review provides a baseline look at the department's ability to efficiently perform its duties within its budgetary constraints and is intended to be used as a current and long-term view for the benefit of the state.

To maximize our office's resources, we conducted a risk analysis to determine which budget areas could be most improved by an in-depth budget review. We defined risk areas as areas where greater efficiencies and cost savings were available, including Programs and Operations (P&O), Division of Clinical Services (DCS), Jail Contracting, and Utah Correctional Industries (UCI).

Methodology Note On Population Counts

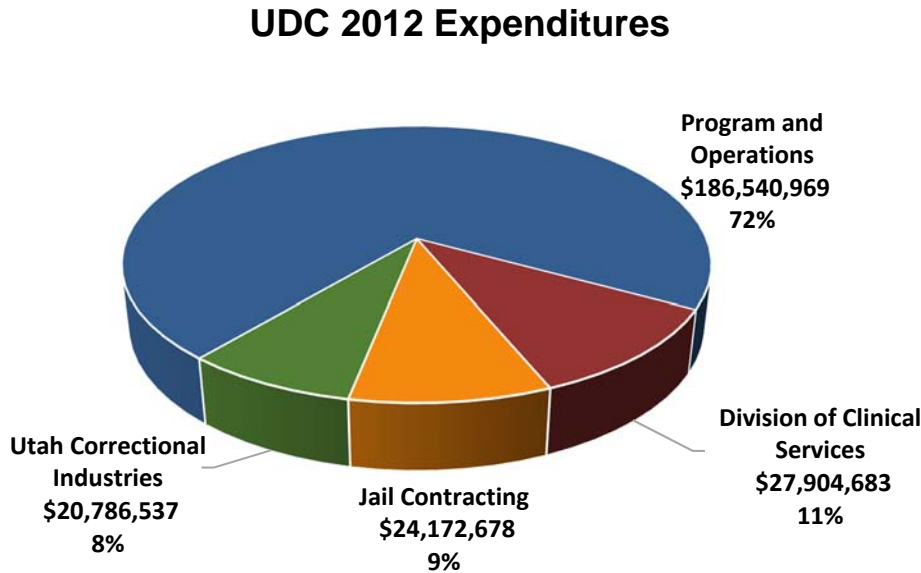
The reader may see differing population totals throughout each chapter of the report. The reasoning behind this is that a budget program covers the costs of specific groups of inmates. For example, DCS provides medical care to state inmates in prisons and jails, but not halfway houses. In contrast, culinary services in Draper provides food to inmates at the Draper facility and in halfway houses, but not for inmates in jail or at the Gunnison facility. This difference in population totals provides for a more accurate cost-per-offender comparison in each chapter of the report.

Report Chapters Are Organized by UDC Line Item Appropriations

Chapter II is not tied to a Legislative line item, but presents information on UDC's carry-forward balance, then, beginning with Chapter III, each chapter of the report is dedicated to one of UDC's four line item appropriations, with an accompanying appendix providing additional historical trend information. For example, Appendix A is the companion appendix to this chapter, and provides a historical overview of all of UDC's operations. Figure 1.2 shows the legislative appropriations categories and the amount of expenditures for each of those areas.

Chapter II is not tied to a Legislative line item, but discusses UDC's carry-forward balance. Chapters III, IV, V, and VI correspond to UDC's four line item appropriations.

Figure 1.2 UDC Expenditures Are Broken into Four Appropriation Spending Categories. The vast majority of the expenditures occur in the P&O line item. Expenditure information was obtained from UDC.



Source: OLAG analysis on data provided by Utah Department of Corrections
Note – Each chapter’s figures are color coded to the above color scheme. So, for example, all figures in the report in red deal with the clinical services area of UDC.

Figure 1.2 shows the four legislative appropriation categories and their spending relative to all UDC expenditures in fiscal year 2012. As an assist to the reader, we replicate this pie chart at the beginning of each chapter, separating the section covered in that chapter. So, for example, all figures in the report in red deal with the clinical services area of UDC.

The greatest expenditures occur in the Program and Operations line item, which accounts for 72 percent of all expenditures.

Audit Scope and Objectives

We were asked to perform a risk-based in-depth budget review of the UDC as per *Utah Code* 36-12-15.1. We set the scope of the in-depth budget review to include the following objectives:

- Conduct a risk-based assessment of UDC’s budget
- Review select expenses to determine the department’s efficient and effective use of appropriated funds

- Review certain expense trends over a selected period of time for changes to determine if expenditures were being effectively used
- Determine if management of select appropriated funds led to the most efficient and effective outcomes

In Chapter II, we report on UDCs' implementation of significant career ladder changes and concerns with the level of transparency provided to the Legislature in how they planned to fund it. We also examined the \$25 million carry-forward amount, most of which has been accumulated since 2008. We were specifically asked by a few officials in both the legislative and executive branches to look at the accumulation of carry-forward funds. Chapter II reviews how these funds were generated and communicated to the Legislature. The following bullet points describe the specific organization of the remaining report chapters as they relate to the appropriated line items:

- Chapter III: Programs and Operations (72 percent of total expenditures, roughly \$187 million). This chapter focuses on reducing the cost of food services and the role state purchases play in driving food costs down.
- Chapter IV: Clinical Services (11 percent of total expenditures, roughly \$28 million). This chapter deals with needed improvements in the medical contract UDC has with the University of Utah Medical Center, as well as how to decrease pharmacy expenditures, and improve processing of medical claims.
- Chapter V: Jail Contracting (9 percent of the total expenditures, roughly \$24 million). This chapter examines whether the cost analysis performed for jail contracting is sufficient.
- Chapter VI: Utah Correctional Industries (UCI) (8 percent of total expenditures, roughly \$21 million). This chapter looks at UCI operations and how they relate to the Legislature's intent for creating this business-like entity and whether sufficient performance measures exist to measure job related success of inmates.

Chapter II

UDC Budget Reduction Options Not Fully Disclosed to Legislature

During our review of the Utah Department of Corrections (UDC), concerns with UDC's carry-forward balance, coupled with testimony that the prior department administration gave to the Legislature, were brought to our attention. Specifically, there was concern with February 2011 UDC testimony to the Legislature stating that any amount of budget cuts they received would result in release of inmates. However, pay raises were given to more than 500 employees in June of 2011. The concern is that UDC could have been more transparent with the Legislature on the budget cutting options before them.

In February 2011, the Executive Director of the UDC testified to the Legislature that they could sustain no cuts without imminent early inmate release, but provided career ladder salary increases to over 500 employees four months later. Legislative and executive branch budget officers were only made aware of this action in June 2011, when the increases went into effect. UDC funded these ongoing pay increases with the elimination of FTE positions they designated non-essential. We understand that UDC believed staff were underpaid and wage increases were needed to retain employees. However, UDC should have been more transparent with the Legislature, stating how many non-essential positions could be cut and how the agency planned to use the funds.

From fiscal years 2008 to 2011, UDC added about \$10 million to its carry-forward funds, reaching a balance of \$19.6 million. In fiscal year 2012, UDC added another \$5.6 million for a year-end carry-forward balance of \$25.2 million. UDC reports that they cut back in many operational areas in preparation for possible budget cuts that were occurring during that time. Reducing staff and looking for short-term and long-term operational efficiencies during budget cutting situations is commendable, but greater information should have been given to the Legislature.

In February 2011, UDC testified that any amount of budget cuts would lead to the release of inmates. However, raises were given to 500 employees in June of 2011.

During fiscal years 2008 to 2012, UDC generated a carry-forward balance of \$25 million.

Pay Increases Created From Vacant Positions

In June 2011, a career ladder was instituted that gave pay raises to some staff during a time of budget challenges.

The former Executive Director of Corrections gave testimony in February 2011 stating that a reduction in the department's workforce could lead to the premature release of inmates who were not ready to be released. However, a new career ladder was installed in June 2011 that gave pay increases to some administrative staff, with no known pay cuts to any staff, during a time when other state agencies were required to cut their budgets. Our understanding is that this action was not known by the legislative or executive branch fiscal staff until June 2011, the month the raises were given.

The below transcript provides some of the interchange between UDC's executive director and Senator Valentine during testimony to the Executive Offices and Criminal Justice Appropriations Subcommittee. We recognize the below testimony only captures a small part of the many hours of testimony given to the committee, but we believe it raises important questions about UDC's lack of transparency with the Legislature.

UDC: . . . Anything on this list, obviously, is early release for inmates...and so the lower you make that amount, the lower the number is of staff who lose their jobs and inmates that hit the streets prematurely.

Senator Valentine: . . . I want to make certain that if we do that, we don't just say "well we still have to do a closure because we don't have enough funds." I need to know where that cut point is.

UDC: We will still have to do closures at every percentage point along this. You cut me one percent, we are still doing a closure. . . .

Senator Valentine: Give me a sweet spot, then okay? Give me a sweet spot about three percent cut.

UDC: A three percent cut is going to be \$6.9 million, the consequences to that would be 384 inmates would be early released, (now this is beyond those that are being

UDC testified that any percentage cut would lead to early inmate releases.

aggressively addressed by the Board of Pardons) so these are people that are not deemed to be ready to be released back to society. So you've got 384 and you've got approximately 75 staff that lose their jobs.

According to this testimony, it appears that the UDC could not absorb any cuts without the release of inmates, however, as stated, the UDC provided pay raises for over 500 employees a few months later at an approximate cost of \$4.5 million. We spoke to one of the co-chairs of the appropriations sub-committee who indicated that UDC had briefed both of the co-chairs on its carry-forward balance. However, UDC's ability to give salary increases with on-going funds was not communicated to the co-chairs. We also spoke to officers in the legislative and executive branch who worked closely with the UDC on the budget during this time; these staff indicated that the earliest they were made aware of the pay raises was in June 2011.

The career ladder was put into place to help retain employees and incentivize advancement. The money used to fund the career ladder was provided by vacant positions. Through our analysis, we determined that they had approximately 230 unfilled positions, which amounts to about 6 percent of their budget. However, the director of UDC claimed that the cutting of these vacant positions, which was a 3 percent cut, would lead to an early release of inmates who were not ready for release, and made no mention that this was the way they would be funding the raises for over 500 employees.

Recreating all the nuances of the budget and different reduction scenarios is difficult to do. However, the Governor's budget staff and the Legislature's budget staff both confirm that UDC was largely unaffected by cuts in 2011, while other agencies saw much more significant reductions. Sparing UDC from budget cuts appears to have occurred, at least in part, because of the possibility of closures that would translate to the early release of inmates.

The salary increases, an ongoing expense, were funded through ongoing savings from FTE positions UDC had cut, but was still receiving funding for. We understand the difficulty UDC was in at the time, sorting through different budget cut scenarios and their impact on operations. However, it appears that UDC overemphasized the possibility of closures and early inmate releases and did not present

Pay raises for over 500 employees came at a cost of \$4.5 million to the UDC.

It was determined that the UDC had 230 unfilled positions, which is approximately 6 percent of UDC's budget. Funding for many of these vacancies was used to give pay increases.

Those with specific knowledge of UDC funding raised concerns to us about the salary increases.

other possible budgetary solutions, such as an alternate use for the funds later used for significant salary increases just four months after the cited testimony was given.

The concerns brought to our attention about funding salary increases shortly after the testimony to the Legislature came from individuals with specific knowledge about UDC's funding and expenditures. We recommend that, in the future, UDC should be more transparent with Legislature with regard to its budget and the possibility of releasing inmates early.

The following section focuses on another budget-related area, UDC's increasing carry-forward fund balance that should have been included in the budget deliberations discussed above.

Elimination of Positions Led to Large Surplus

A bulk of UDC's \$25 million surplus came between 2009 and 2011 through vacant positions.

The UDC eliminated a large number of FTE positions from 2009 to 2011—approximately 237 positions—a 10 percent decrease in workforce. A department-wide hiring freeze aided in reducing positions through attrition. As a result, the UDC was able to accumulate the bulk of the \$25 million surplus during this period. Figure 2.1 shows the change in personnel and the savings accumulated between 2010 and 2012.

Figure 2.1 The Majority of UDC’s Surplus Accrued Between 2010 and 2012. The majority of carry-forward growth occurred in fiscal year 2011.

	2010	2011	2012	Total
Average FTEs Filled	1962	1917	1911	
Average FTES Vacant	189	193	148	
Total Expended Salaries, Wages, and Benefits	\$130,200,000	\$127,500,000	\$129,400,000	
Average Salary and Benefits	\$66,000	\$67,000	\$68,000	
Estimated Overtime	\$2,000,000	\$3,400,000	\$3,500,000	
OLAG Estimated Annual Savings from Vacancies* (Adjusted for Overtime)	\$11,000,000	\$9,000,000	\$7,000,000	\$27,000,000
Actual UDC Nonlapsing** at fiscal year end	\$10,244,200	\$19,762,200	\$25,208,300	

Source: OLAG analysis on data provided by Utah Department of Corrections and Legislative Fiscal Analyst Office

* These numbers reflect UDC’s estimated accumulated carry-forward fund balance from vacant positions

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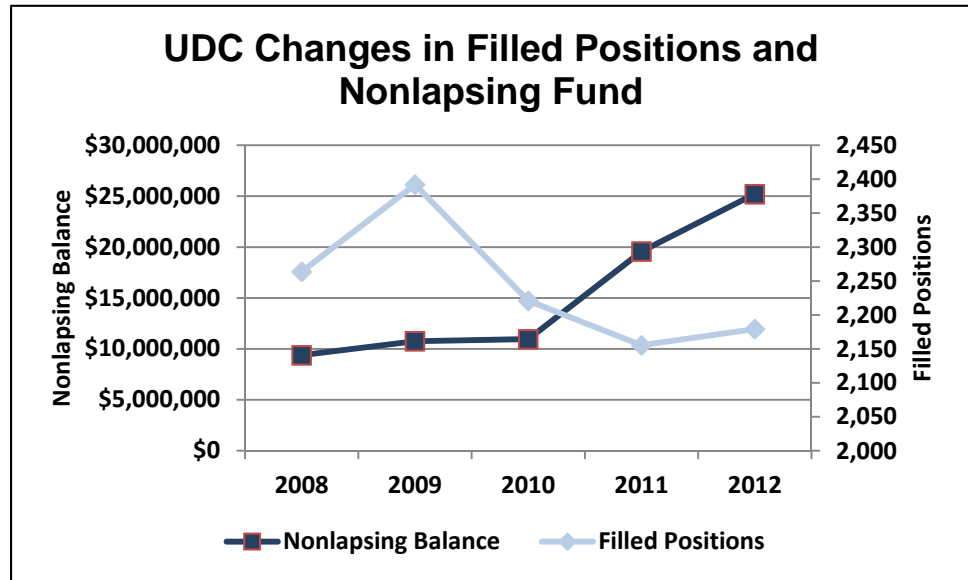
As shown in Figure 2.1, we estimate that approximately \$27 million was accumulated by vacant positions between 2010 and 2012. This estimate does not account for any lapsed or transferred funds at year end. For example, in 2010, \$1 million was transferred from UDC for other purposes. The estimated numbers are similar to UDC actual nonlapsing numbers. Additionally, the vast majority of accumulated funds occurred during 2010 and 2011, prior to the funding of the career ladder. Most of the carry-forward balance was realized after the eliminated positions were vacant for over a year, allowing for the savings to accumulate.

Along with the elimination of FTE positions during the 2008-2011 hiring freeze, UDC also cut spending on basic supplies and maintenance. UDC as a whole was appropriated fewer funds in fiscal years 2010 and 2011 and naturally exercised restraint in spending as a result; however, acknowledging reduced spending measures, it is clear that the primary explanation for the fund balance growth is the elimination of positions. Figure 2.2 shows this.

We estimate that approximately \$27 million was accumulated by vacant positions between 2010 and 2012.

Figure 2.2 Shows the Carry-forward Balance and Filled Positions. As filled positions decreased, the carry-forward balance increased, thus increasing the surplus.

As filled positions decreased, the UDCs nonlapsing funds increased.



Source: OLAG analysis on data provided by Utah Department of Corrections

According to Figure 2.2, filled positions decreased from 2009 to 2011; during this same timeframe, the carry-forward balance increased at nearly the same rate—although the savings is not reported until the following year.

A large amount of the surplus was used in 2013 to pay for a parole violator center, jail contracting growth, and a medical department shortfall.

A large portion of this surplus was allocated in the 2013 General Session, with the following expenditures using some of the surplus:

- Parole violator center, \$2.5 million
- Jail contracting growth, \$1.8 million
- Medical department shortfall, \$1.8 million

It must be noted that some of the surplus accrued by the UDC was also reallocated to other state agencies to help with some of their budgetary needs.

The presence of a nonlapsing balance does not necessarily suggest any wrongdoing at UDC. In fact, it may suggest strategic consolidation in areas where overspending and waste were occurring. The balance also does not necessarily indicate that UDC is over-funded. During years of recession, UDC restrained purchasing and reduced maintenance on existing assets. However, UDC should have

been more transparent with the Legislature during budget cut deliberations as to what options were available beyond early release of inmates.

Recommendation

1. We recommend UDC be more transparent with the Legislature with regard to its budget and how it relates to the possibility of releasing inmates early.

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Chapter III

Greater Efficiencies Can Be Achieved in the Programs and Operations Budget

The Programs and Operations (P&O) line item accounts for 72 percent of Corrections' funds allocated by the Legislature. The largest combined expense is personnel costs; however, the largest expense for a single department in the P&O account is food costs for inmates, at approximately \$8 million in fiscal year 2012. Based on the results of our risk analysis, we determined that significant improvement could occur in food services. Specifically, food expense can be reduced through better management.

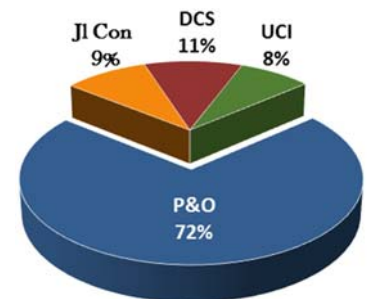
There are about \$1 million potential annual savings possible (\$5 million over five years) if the Draper prison, and the halfway houses, can lower food prices commensurate with the Gunnison prison by utilizing opportunity buys or second market purchases. There are also approximately \$240,000 in annual savings possible by adjusting the menu portion sizes for female inmates. Further, even more savings are possible if both the Draper and Gunnison prisons can lower their costs to those of surrounding states. Also discussed in this chapter is a discussion on the recent order by the State Division of Purchasing and General Services (State Purchasing) to cease all second market purchases. However, State Purchasing is prepared to reinstate UDC's use of second market purchases after it receives a statutorily required cost/benefit analysis from UDC.

Lastly, as noted in Chapter I, additional reviews of other budgetary items within the P&O line item, historical trends, and budgetary analysis are found in Appendix B.

Inmate Food Expenses Can Be Reduced Through Better Management

Although both facilities have a shared menu, inmate food is purchased separately for the Utah State Prison Draper facilities and the Central Utah Correctional Facility (CUCF) in Gunnison. However, controlling for population differences, the Draper facility spends more

The Programs and Operations line item accounts for 72 percent or \$186.5 million of UDC's budget. This line item includes programs such as the prisons and Adult Probation and Parole.



If Draper had similar costs to Gunnison, they could have saved \$5 million over 5 years.

Draper food costs have largely increased due to lack of second market buys, not using available freezer space, and a higher caloric intake for female inmates.

to feed its inmates than the Gunnison facility spends. Based on our analysis from 2008 through 2012, if Draper had costs per inmate per day similar to Gunnison's costs, the facility likely would have reduced its overall costs by an average of \$1 million annually (\$5 million over five years). Unlike Gunnison, which has an experienced director of culinary services, UDC management in Draper placed an officer inexperienced in culinary services over Draper's food services. Partly due to this officer's inexperience in managing culinary services, costs have increased, largely caused by the following:

- Draper management does not utilize second market buys, while Gunnison management does
- Draper has freezer space but does not use it as well as Gunnison does to store foods in bulk
- Draper allows a higher than recommended caloric intake for female inmates at its facility (Gunnison does not have female inmates)

UDC management needs to examine cost differences between the Draper and Gunnison facilities, as well as overall food costs, since we also found that UDC has higher food costs than neighboring states.

Draper Culinary Management Can Improve

Management of the Draper prison replaced the manager of culinary services in 2010. The correctional captain selected to fill the culinary services position had no prior experience in culinary management and costs to feed inmates have increased since 2010. Figure 3.1 shows that Draper's per-inmate per-day food costs have increased 18 percent since 2010. It might be concluded that Draper's food cost increase was due strictly to an increase in market costs. However, during this same time period, the prison in Gunnison decreased annual food costs by 14 percent. (Please note in the analysis throughout Chapter III, that the "Draper Prison" food costs and offender counts include the halfway houses because the Draper Prison provides the food to these facilities).

Figure 3.1 Food Cost per Inmate per Day Increased When New Management Took Over. The food cost per inmate has increased over 60 cents per inmate per day since 2010, when new management took over the culinary services.

Draper Prison Food Cost per Inmate per Day	
Year	Draper
2010	\$3.54
2011	\$3.87
2012	\$4.16
% Change 2010-2012	18%

Source: OLAG analysis on data provided by Utah Department of Corrections

As shown in Figure 3.1, the cost has increased by 18 percent since new management took over, an increase of almost \$800,000 since 2010. As discussed in the next section, not utilizing second market buys is a key explanation for Draper’s higher costs, which amount to approximately \$5 million over five years.

Second Market Buys Can Reduce Draper’s Food Costs

Draper prison culinary management has not employed second market buys as a way to reduce the cost to feed inmates, which could save the state \$5 million over five years or \$1 million annually. Second market buys are food items that are over-produced or discontinued, or food from canceled orders that is then purchased by vendors who sell it at a much reduced rate. For example, a large restaurant chain may run a promotion that is discontinued, leaving a large quantity of meat patties unused. The restaurant chain can sell this surplus to second market vendors at a low price; the discount can then be passed on to a buyer. Another example could include a grocery store discontinuing or cancelling an order, or wanting to sell off food because it is close to its expiration date. Store management could then sell this food to the second market for redistribution.

Although both facilities share a similar menu, Figure 3.2 reflects the cost discrepancy between the Draper and Gunnison facilities by a cost per day analysis.

Draper Food costs have increased by 18 percent since new management took over in 2010.

Second market buys are valid food items that are over-produced or discontinued, which are then sold at a reduced price.

Figure 3.2 Gunnison Feeds Inmates the Same Menu at a Lower Cost Per Day than Draper. This figure shows that even though Gunnison has essentially the same menu as Draper, Gunnison’s costs are consistently lower.

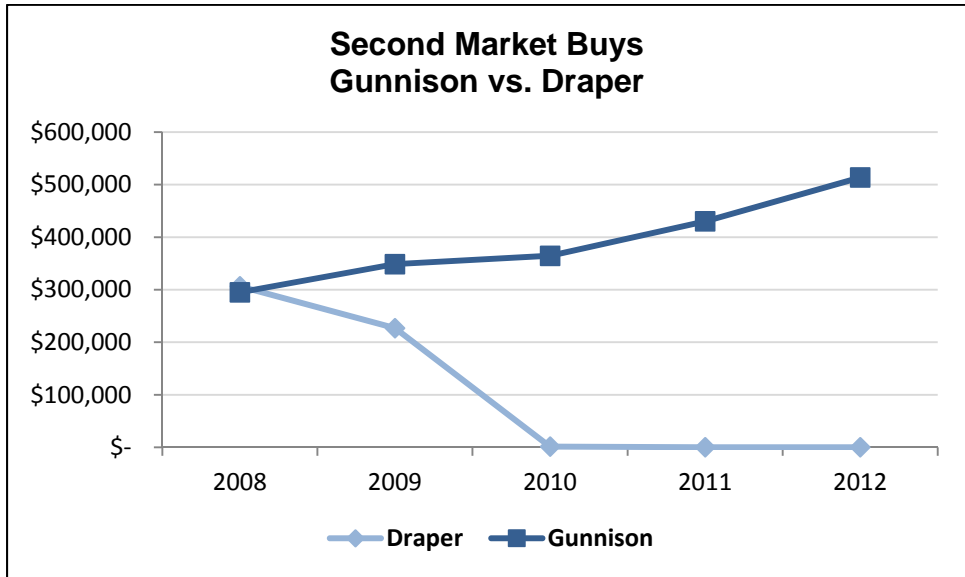
Cost per Inmate per Day			
Year	Draper	Gunnison	Difference
2008	\$3.83	\$3.23	-\$0.94
2009	3.96	3.49	-0.47
2010	3.54	3.44	-0.10
2011	3.87	2.94	-0.93
2012	4.16	2.96	-1.20
Average			-\$0.73

Source: OLAG analysis on data provided by Utah Department of Corrections

According to Figure 3.2, the Draper facility has had higher per inmate food costs for at least the last five years. Draper briefly reduced the gap in food costs between 2009 and 2010, but costs then increased even more in 2011 and 2012. Taking the average cost per day over the last five years, Draper has spent \$0.73 more per inmate per day. As mentioned earlier, it appears that at least part of the reason can be attributed to the lack of second market purchases. Figure 3.3 shows this divergence.

Since 2008, Draper has paid \$0.73 more on average than Gunnison to feed an inmate on a daily basis.

Figure 3.3 Draper Management’s Discontinuance of Second Market Buys Corresponds with Increase in Costs in 2011 and 2012. In 2008, Gunnison and Draper were buying approximately the same amount of second market buys and then in 2010 Draper discontinued all second market buys while Gunnison increased them.



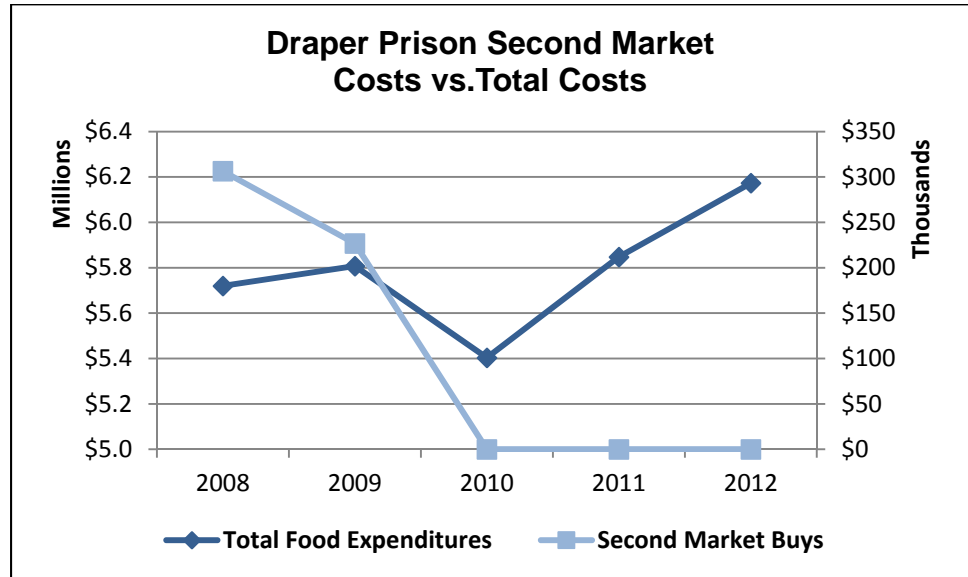
Source: OLAG analysis on data provided by Utah Department of Corrections

Draper completely stopped purchasing second market buys in 2010.

As Figure 3.3 shows, the Draper facility completely stopped second market purchases. Draper prison management told us that they stopped using second market buys due to a lack of experience in this area. However, to a large degree, moving away from second market purchases explains why the food cost per inmate increased during 2011 and 2012 (see Figure 3.2). Examining this trend further reveals that total food costs at the Draper facility increased drastically after not utilizing the second market buys after 2010. Figure 3.4 displays this trend.

Figure 3.4 As Draper Discontinued the Use of Second Market Buys, Total Food Costs Went Up. We recognize other factors were also in play, but the discontinuance of second market purchases appears to be a significant factor.

Total food costs for Draper increased since the discontinuation of second market buys.



Source: OLAG analysis on data provided by Utah Department of Corrections

As illustrated in Figure 3.4, food costs increased after Draper chose not to purchase second market food. In fact, food costs increased by 18 percent from 2010 to 2012. While other factors may have also contributed to this increase, the discontinuation of second market buys appears to be a driving factor. This increase occurred while there were relatively few increases in the Draper inmate population.

Due to an increased number of inmates at Gunnison, total food costs have increased in the last five years. However, food cost per inmate has decreased, seemingly due to the increase in second market buys at the Gunnison facility, which are shown in Figure 3.5.

Figure 3.5 Gunnison Increased Second Market Purchases Over the Last Five Years to Account for a Rising Prison Population. Second market buys have become a larger proportion of Gunnison's food expenditures, increasing from 19 percent to 31 percent from 2008 to 2012.

Gunnison Second Market Purchases % of Total Food Costs				
Year	Total Food Costs	Second Market Purchases	% of Food Spent on Second Market	Per-Inmate Per Day Cost
2008	\$ 1,551,285	\$ 294,990	19%	\$3.23
2009	1,733,328	348,597	20%	3.49
2010	1,715,941	364,402	21%	3.44
2011	1,669,717	430,151	26%	2.94
2012	\$ 1,649,514	\$ 513,570	31%	\$2.96
% change	6%	74%		(8%)

Source: OLAG analysis on data provided by Utah Department of Corrections

As seen in Figure 3.5, total food costs have increased by 6 percent since 2008. The inmate population at Gunnison during this same time period also increased from 1,314 to 1,525, a 16 percent increase. However, the cost to feed an inmate per day decreased from \$3.23 to \$2.96 from fiscal year 2008 to fiscal year 2012. The average inmate population for the Draper facility over this same time period showed a slight decrease from 4,091 to 4,065. Therefore, we believe the increase of second market food purchases by the Gunnison facility from 19 percent to 31 percent helped stem the price increase per inmate per day from 2008 to 2012.

We also note that, during the audit, the quality of food was brought to us as a concern with second market purchases. However, we could not substantiate these claims. We consulted with UDC's chief medical officer, who could not recall any illness caused by food provided to the inmates. We also consulted about those claims with a record keeping official at UDC who had no record of initially served food at UDC harming inmates. There are cases of inmates poisoning their food and getting sick, but there is no evidence of originally served food causing sickness to inmates. In fact, second market

Gunnison spending on second market buys has increased since 2008 and food costs per inmate have subsequently decreased.

UDC's medical officer reported that there have been no instances of food borne illness.

distributors offer guaranteed quality through a certification approved by the Food and Drug Administration. Second market purchases are currently under review by State Purchasing. This topic is discussed later in this chapter.

Draper Not Using Available Freezer Space to Buy in Bulk

Draper's culinary management claimed that one reason they have not participated in second market buys is a lack of freezer space. Second market buys often require large purchases and sufficient freezer space to store the items. The perceived lack of freezer space has also contributed to management's unwillingness to purchase bulk items such as meat. However, extra freezer space is available through the UDC's Utah Correctional Industries division and has been available for at least two years. Management has chosen not to utilize this space for unspecified reasons. Savings may have been realized had management decided to use this available space. We recommend that Draper culinary management seek ways to obtain savings through better menu management and volume purchasing.

Management Can Reduce Food Costs by Decreasing Female Inmate Calories

In 2005, the Clinical Services director advised Culinary Services that the daily caloric amount for female inmates should not exceed 1,800 calories. However, during audit fieldwork, we found that female inmates were still being fed 2,600 calories per day. If Culinary Services had implemented the recommended diet suggested by Clinical Services, they could have saved about \$240,000 annually or about \$1.2 million in food costs between 2008 and 2012. Also, a medical professional told us that this change could possibly improve the health of female inmates and help reduce recidivism rates.

When asked why Culinary Services chose not to implement this recommendation, management stated that it would be difficult to customize meals for the women. However, culinary services already customizes meals for inmates who have religious or medical diet restrictions, so it is possible for them to customize the meals for the female population. Because male inmates are receiving closer to their daily recommended caloric serving for food, they are not the focus in the report.

Draper's culinary management has had access to a freezer for 2 years, which could have saved money on food costs by providing storage space for bulk purchases.

Female inmates' caloric amount should be 1,800 per day but they have been given 2,600 calories per day since 2005.

A Body Mass Index (BMI) analysis, which evaluates height and weight measures to determine body type, shows that in general inmates are gaining weight while incarcerated. However, female gains are much higher than male gains. Figure 3.6 depicts this analysis.

Figure 3.6 Body Mass Index* Measures Are Increasing for Both Incarcerated Males and Females, But Females’ BMIs Are Increasing More. Increases in BMI among a sedentary population may indicate they are being served too many calories.

BMI Analysis				
	Pre-Incarceration BMI Aggregate	Follow-Up BMI Aggregate	BMI Point Increase	Percent Increase
Female Inmates	27.9	29.9	2.0	7%
Male Inmates	26.8	27.5	0.7	3%

Source: OLAG analysis on data provided by Utah Department of Corrections

*The Body Mass Index (BMI) scoring system specifies that a score:

- below 18.5 indicates an “Underweight” body type
- between 18.5 and 24.9 indicates a “Normal” body type
- between 25.0 and 29.9 indicates an “Overweight” body type
- above 30.0 indicates an “Obese” body type

Figure 3.6 shows the aggregated pre-incarceration BMI for both male and female inmates, and then a comparative follow-up measure. While scores increased for both genders, the BMI score increased by 2.0 in the female population, much higher than the 0.7 increase for male inmates. The UDC Director of Clinical Services suggests the following caloric daily serving for female and male inmates:

- Sedentary females between ages 19 and 30 should receive 1,800 to 2,000 calories daily; ages 31 to 50 should receive 1,600 to 1,800 calories daily; and ages over 50 should receive 1,400 to 1,600 calories daily.
- Sedentary males between ages 19 and 30 should receive 2,400 to 2,600 calories daily; ages 31 to 50 should receive 2,200 to 2,400 calories daily; and ages over 50 should receive 2,000 to 2,200 calories daily.

UDC could have achieved substantial savings if the prisons had reduced female inmates’ caloric intake. As mentioned, if Culinary Services had implemented the recommended diet suggested by Clinical Services, they could have saved nearly \$1.2 million in food costs since

BMI measures are increasing for both incarcerated males and females, but females’ BMI is increasing more.

2008, not including any reduction in medical costs related to overeating and being overweight. The analysis in Figure 3.7 shows potential savings UDC could have achieved from 2008 and 2012.

Figure 3.7 Potential Savings from Reduced Calories in Female Inmate Diets Is Significant. UDC could have saved nearly \$1.2 million over the last five years if they had implemented Clinical Services' 2005 recommendation.

Reduced Calories Savings	
Fiscal Year	UDC Savings from Reduced Calories
2008	\$ 238,400
2009	251,400
2010	220,600
2011	238,000
2012	258,800
Total Savings	\$1,207,200

Source: OLAG analysis on data provided by Utah Department of Corrections

Figure 3.7 shows that UDC could have saved about \$240,000 a year on average for the last five years by feeding female inmates the amount of calories recommended by UDC's chief medical doctor in 2005. Further, we do not suggest that reducing calories requires a change in menu; rather, we recommend that Culinary Services reassess the food portion sizes for female inmates.

In addition, without reducing calories for female inmates, we question UDC's ability to fully rehabilitate inmates. One member of the UDC medical staff said that with high levels of obesity, personal earning potential after prison decreases, which could lead to higher rates of recidivism. Also, UDC officials reported to us that some inmates released from prison will revert to drug use as a quick method to decrease weight. While we did not audit these specific medical areas, we believe that, when UDC addresses the cost concerns of the higher caloric intake for female inmates, management should also give greater consideration to proper diet in their overall view of rehabilitation of inmates.

UDC could have saved about \$240,000 a year by feeding female inmates the recommended caloric intake.

With high levels of obesity, released inmates may have lower earning potential, increased health concerns, and higher rates of recidivism.

UDC Has Higher Food Costs Than Neighboring States

The UDC cost per meal is generally higher in Draper and Gunnison than other states we compared it to. While we obtained the food services cost figures, we did not audit the other states or determine how other costs (for example, transportation) may affect their prices. However, most of the states we contacted claimed they have a permanent contract in place or they bid all of their food needs out to private vendors. Utah could save \$2.7 million annually if UDC achieved the same costs as Colorado—the lowest-cost state with in-house culinary services similar to Utah’s. Although Colorado does not have the lowest food cost per meal, they have the most comparable correctional culinary program to Utah. Figure 3.8 shows how Utah compares with neighboring states in fiscal year 2012.

UDC’s cost per meal is generally higher than costs in neighboring states. Utah could save \$2.7 million annually by lowering food costs to the levels in a neighboring state.

Figure 3.8 A Comparison of 2012 Utah Inmate Food Costs to Other States Shows Utah Has Higher-Priced Meals. Utah has one of the higher food costs per inmate compared to surrounding states. There is the potential for significant savings if UDC could lower food costs to those of surrounding states.

Compared to surrounding states, Utah has higher food costs.

State	Food Cost Per Inmate Per Meal	Public or Private	Average Population of Facility	Use Contracted Vendors and/or Second Market
Arizona	\$0.71	Private	38,000	The private company the state contracts with is permitted to buy on the second market, but must first obtain approval and must comply with specifications of the contract.
New Mexico	Private \$0.72 Public \$1.53	Private and Public	6,400	No food contracts. Contract with private vendor who participates in second market buys. Vendor purchases all food from whomever as long as they meet state requirements.
Nevada	\$0.75 Budgeted*	Public	1,500	Yes. Legislatively approved to use 20% of budget for second market buys.
Colorado	\$0.80	Public	14,000	No state food contracts. Bid out food frequently. Do not use second market.
Idaho	\$0.87	Public	4,780	Yes. Contract permits use of 20% of budget for second market buys, but they do not participate in many. They have own food contract for Corrections, and often purchase food from organizations that cater exclusively to correctional facilities.
Utah-Gunnison	\$0.99	Public	1,525	Utilizes second market buys. Under state contract.
Utah-Draper	\$1.39	Public	4,065	Has not utilized second market buys since 2009. Under state contract.
Wyoming	Fac1 \$1.47 Fac2: \$1.99**	Public Public	640 1,920	Usually purchase through state contracts.

Source: OLAG analysis on data provided by Utah Department of Corrections, and other state's Department of Corrections

*This number is the budgeted amount and may not reflect the actual meal cost per inmate

**Information on two facilities was provided because we were unable to obtain aggregate numbers for the state.

According to Figure 3.8, Utah is one of the states with higher per meal food costs. The states with lower food costs appear to have either a more competitive contract or constantly bid for their food needs.

Second Market Buys Are Currently Halted Awaiting Statutorily Required Cost/Benefit Analysis

UDC was required to stop purchasing items from the second market until a statutorily required cost/benefit analysis was completed. The cost/benefit analysis is part of new legislation enacted in the 2013 Legislative General Session. After reviewing a draft copy of this audit report, State Purchasing was satisfied with the significant cost savings potential of second market purchases. State Purchasing has signaled their desire to allow second market purchases to go forward after UDC formally requests and provides the cost/benefit analysis (contained in this audit report). Also, significant price increases have occurred in the produce (fresh fruit and vegetables) contract that UDC utilizes. Although limited by time constraints, we worked with state purchasing officials who agree to further examine these concerns raised by UDC.

Permanently Disallowing UDC Second Market Buys Could Cost the State

The UDC was required to stop using second market buys until a cost/benefit analysis could be completed. State Purchasing explained the order to cease all second market buys by stating, “We had to revoke the Limited Purchasing Delegation (LPD) issued to the Department of Corrections (DOC) because it was in violation of State Law [referring to Senate Bill 190].”

We later consulted with the State Purchasing director regarding the division’s interpretation of the *Utah Code* and he explained that they would reinstate second market buys after a statutorily required cost/benefit analysis was completed [see *Utah Code* 63G-6a-408(5)(b)]. Further, after reviewing a draft of this audit report and the cost/benefit analysis contained within the report, the state purchasing director told us he would reinstate second market purchases after a formal request from UDC that covers all the required provisions in the statute.

As noted in Figure 3.5, other states allow second market buys and have found them to be beneficial. We are encouraged by this action made by the state purchasing director.

UDC was asked by State Purchasing to stop using second market buys until a cost/benefit analysis is completed.

UDC raised concerns to us about significant price increases that occurred in state purchasing's produce contract.

UDC Raised Concerns About Price Increases on State Contract

In a related issue involving State Purchasing, UDC raised concerns to us about significant price increases that occurred after an initial 90-day price lock on the state purchasing's produce contract. UDC was concerned because produce items' prices that increased, in some cases by 100 percent or more, did not appear legitimate. Or, in other words, UDC could not substantiate that a similar price increase actually occurred in the marketplace.

State purchasing officials provided us with information on pricing, market index comparisons and other information. On a limited basis, we worked with State Purchasing officials to determine if the information they provided us justified the price increases. However, since we reviewed this issue near the end of the audit, we were not able to fully examine the issue. The purchasing officials we worked with agreed that some outstanding questions still exist and are responsive to our suggestion to have them more fully review the price increases to ensure they are appropriate.

Recommendations

1. We recommend that the Utah Department of Corrections address the issue of inexperience in the management of Draper Culinary Services by adding experienced management or providing additional training.
2. We recommend that Draper Prison Culinary Services seek ways to obtain savings through better menu management and volume purchasing.
3. We recommend that Draper Prison Culinary Services utilize the freezer owned and unused by the Utah Correctional Industries to store more volume purchases.
4. We recommend that Draper Prison Culinary Services follow the inmate caloric intake recommendations provided by Utah Department of Corrections Clinical Services.

5. We recommend that in accordance with *Utah Code* 63G-6a-408(5)(b), the Utah Department of Corrections should formally submit a second market purchase cost/benefit analysis to the State Purchasing and General Services Director asking for second market purchases to be reinstated. The Utah Department of Corrections should use the analysis contained in this audit to support the cost/benefit analysis.

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Chapter IV

Clinical Services May Reduce Costs Through Better Contracting and Pharmacy Pricing

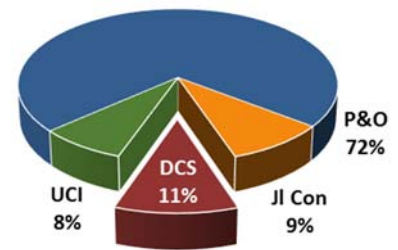
Inmate medical costs at the Utah Department of Corrections (UDC) have greatly increased over the last several years. For example, the annual medical cost per inmate has increased 25 percent since 2008. We understand other states have also experienced similar medical cost increases and that there are many factors leading to increased medical costs that cannot be controlled by UDC. However, our review of UDC's Division of Clinical Services (DCS) uncovered three measures that UDC can take to curb some cost increases and save as much as \$560,000 annually:

- UDC could save \$304,000 annually on offsite outpatient care costs by negotiating lower contract rates
- UDC's pharmacy could potentially save \$167,000 annually by purchasing certain prescription drugs from different vendors
- UDC could save an estimated \$89,000 annually on medical claims processing by joining with another state entity's electronic claims system. Also, UDC could avoid \$140,000 in costs attributed to errors in manual claims processing

These cost saving measures can potentially mitigate other increases that are harder to control, such as: medical cost inflation, aging inmates requiring more medical attention, increases in specialized and costly inmate care, and cost-of-living adjustments. The cost control measures could also help Utah maintain one of the lowest cost per inmate for medical care among states we compared with Utah.

As outlined in Chapter I, additional information is available in Appendix C detailing the appropriation history, historical trends, and budgetary analysis for the clinical services line item.

The Division of Clinical Services line item accounts for 11 percent or nearly \$28 million of UDC's budget. This line item covers all medical expenses for inmates.



UDC Should Consider Rebidding Outpatient Medical Contract

UDC has not bid out their medical contract for over 20 years. UDC could achieve potential savings by rebidding their contract.

We compared UDC's offsite outpatient medical costs with another Utah provider and found UDC's rates were 49 percent higher than the other provider's 2013 rates. Reducing rates could lead to annual savings of approximately \$304,000. Contracted offsite medical costs for inmates have increased 37 percent since 2008. UDC has not competitively bid the contract for outpatient care for over 20 years (1992 was the last request for bid). We recognize that providing healthcare to inmates in an offsite environment has unique challenges and other providers may not want to contract with UDC because of such risks. However, with UDC's 2013 rates 49 percent higher than another provider's rates (41 percent higher in 2012) and the last competitive bid occurring more than 20 years ago, we believe UDC should at least solicit bids to determine if it is getting the best rates possible for offsite inmate medical care.

Current Contracted Rates Are Higher Than Those of Another Utah Provider

UDC's current provider, University of Utah Health Care (UUHC), may not provide the most competitive health care rates for outpatient care. We evaluated the outpatient rates of another Utah-based health care provider and found their health care rates to be more affordable than UUHC's rates. Based on the results of the analysis, UDC should conduct a review of the current contract, particularly since UDC has not competitively bid out its contract for many years. In comparison to the bidding practices of a neighboring state, UDC is far overdue for putting the medical care contract out for bids. It should be noted that UUHC is not statutorily required to provide medical care to UDC inmates.

Our analysis involved taking a random sample of claim costs that UDC paid to UUHC in fiscal year 2012 and six months of fiscal year 2013. We conducted a detailed comparison at the procedure level, identifying standard medical codes (CPT codes) used by UUHC and another local provider. These codes allowed a direct comparison of individual procedure billing rates between UUHC and the other provider.

Figure 4.1 shows that, in a randomly selected sample of medical claims from the beginning of the 2013 fiscal year, UDC spent nearly \$79,000 on UUHC medical services that would have cost \$53,000 at the other provider's rates. In fact, in our sample of data, UDC is paying 49 percent more than the other provider. We also included in our analysis a statutory provision that allows UDC a significant discount when inmates are cared for at a non-contract facility. More information is given on this provision after Figure 4.1.

Figure 4.1 University Hospital Rates Are Higher Compared to One Other Local Provider and Could Be Costing UDC Thousands of Dollars Annually. UDC could potentially save money by rebidding the contract to find a less costly provider.

	UUHC Price	Other Provider's Full Price
Price UDC Paid/ Would Have Paid	\$ 79,000	\$ 53,000
Percent UUHC Price Higher than Competitor		49%
Current 6-Month Savings		\$ 152,000
Projected 1-Year Savings		\$ 304,000
Projected 5-Year Savings		\$1,520,000

Source: OLAG analysis on data provided by Utah Department of Corrections and provider
 Note: analysis used contractual costs for the comparison, additional premiums that could not be identified were not included.

Figure 4.1 shows that at the other provider's rate, UDC could potentially save \$304,000 annually. With similar future savings, UDC could avoid approximately \$1.5 million in medical costs every five years at the normal rate of the other provider (\$304,000 annual savings * 5 years = ~\$1.5 million). We also found that between 2012 and 2013, UUHC raised the rates charged to UDC. As a result, medical costs at UUHC are diverging from the rates of the other provider we compared—in other words, the contract UDC has with UUHC is becoming comparatively more expensive.

UDC could also be statutorily eligible for a discounted rate. *Utah Code* allows UDC a discounted rate of 65 percent if they use a non-contracted provider. *Utah Code* 64-13-30 says the following:

Our analysis shows that UDC could potentially save money by finding a less costly provider.

Utah Code allows UDC a discounted rate if they use a non-contracted provider.

When an offender in the custody of the department receives medical care that is provided outside of a prison facility. . .if there is no contract between the department and a health care facility that establishes a fee schedule for medical services rendered, expenses shall be at the noncapitated state Medicaid rate in effect at the time the service was provided; and if there is no contract between the department and a health care provider that establishes a fee schedule for medical services rendered, expenses shall be 65% of the amount that would be paid under the Public Employees' Benefit and Insurance Program, created in Section 49-20-103.

This provision allows UDC to obtain very favorable rates when they do not use their contracted provider, UUHC. However, UDC cannot get all the medical attention the inmates need through non-contracted services, and other providers may not be interested in the associated risks of giving medical care to inmates. In our analysis with another medical provider we also calculated the cost if UDC used the discounted rate allowed in statute. That analysis showed that the \$304,000 savings that could have been achieved this year at the other provider's normal rate, could have been discounted further at the statutory rate, which in this case would have instead created savings of approximately \$782,000.

We recognize our analysis has some limitations, such as not having data available to consider some premium charges the provider might add to the rates. We believe it would be beneficial to rebid this medical contract to determine if UDC can reduce off-site medical costs. Additionally, we only reviewed UUHC outpatient rates and did not consider the costs associated with inpatient (hospital) rates. Because of limited resources and a large scope to cover an entire department budget review, we did not calculate UUHC hospital costs. Nevertheless, we believe that our analysis of physician costs is a good benchmark for UDC to review; and we recommend that UDC look further into comparing both physician and hospital costs.

UDC Does Not Rebid Contracts as Frequently as a Neighboring State

UDC works exclusively with UUHC for all non-emergency off-site medical visits and has not rebid a medical contract in several years. We gathered information from five states to evaluate how they manage

their off-site inmate healthcare. Unlike Utah, we found that every contacted state, other than Nevada and Colorado, has privatized healthcare in some form, and many of those are fully privatized. Nevada's inmate population more closely compares to Utah's than Colorado. It is for this reason that we compared UDC medical contracts only with Nevada's—both of which have in-house correctional clinical services departments. Although UDC is similar to Nevada in providing health care on-site, Nevada has a much different medical contract.

Nevada rebids its contract at least every four years by contracting with a preferred provider organization, a network of providers that includes doctors, specialists, hospitals, and other primary care providers. Healthcare providers within the network determine whether they will see inmates, which many of them do. UDC's primary contract to provide off-site medical services is with UUHC. UDC has not rebid this contract in over 20 years, although the agency did approach a nearby healthcare facility several years ago and found they were not interested in partnering with UDC. Regardless, we see great value in Nevada's structure of rebidding contracts more frequently and suggest that a similar contract structure be reviewed by UDC.

UDC Should Determine Whether a More Competitive Contract Is Available

As noted, UDC has not competitively bid the offsite medical contract for many years. Although the contract UDC has with UUHC has undergone some revisions, the initial contract remains in place since 1992, the last time UDC issued a competitive request for bids.

In the 2012 General Legislative Session, S.B. 153 was passed and became effective May 1, 2013, making several changes to the procurement statute. That bill enacted section 63G-6a-1204 and states that a procurement unit can enter into multiyear contracts. However, these contracts cannot exceed five years unless a longer period is necessary, customary for industry standards, or is in the best interest of the procurement unit. It is our understanding that this provision does not relate to government entities contracting with each other as is the case with the UUHC contract. Nevertheless, this statute is based on procurement best practices that we think should be followed with the UUHC contract.

Nevada Department of Corrections rebids its medical contract at least every four years.

UDC has not competitively bid the offsite medical contract for over 20 years.

DCS should follow best practices to periodically rebid contracts.

Re-examining the contract and opening it for new bids could open the door to cost savings and even new care delivery methods for inmates. There is no evidence that UUHC is the only provider willing to provide healthcare to inmates. In 1992, perhaps because of risks of giving medical care to inmates, UUHC was the only healthcare provider that showed interest in the proposed contract. However, a competitive bidding process may introduce more bidders or at least help UDC and UUHC refine their relationship and the terms of service.

UDC Could Save More on Certain Prescription Drug Costs

We compared UDC's pharmaceutical costs with three other Utah providers. Overall, we found UDC receives favorable pricing, but it pays significantly higher prices for some drugs. Reducing the cost of those drugs could potentially save \$167,000 annually. When compared to these entities, the UDC paid 678 percent more on average for the higher priced prescriptions. We validated these outlier prices with a representative from the Minnesota Multistate Contracting Alliance for Pharmacy (MMCAP), the group UDC uses to obtain its pharmaceutical prices. The MMCAP representative told us the outlier prices were correct and represented the best available price to UDC. However, the MMCAP representative said that, moving forward, there are several options the state can take to help lower the cost of these drugs. To address drug cost concerns, we recommend UDC and the Division of State Purchasing work with MMCAP to conduct a complete review of drug prices and determine if UDC can obtain lower drug prices.

Our analysis of UDC's pharmaceutical costs found that UDC overall receives favorable pricing, but it pays significantly higher prices for some drugs.

Some UDC Drugs Substantially Higher Than Compared Public Entities

UDC provides full medical services to their inmates, including prescribing various medications. Utah has a contract with MMCAP, a purchasing organization for government facilities that provide healthcare services and full range of pharmaceuticals. We compared the prescription prices obtained through MMCAP against drug prices paid by three providers. When compared to the above-mentioned entities, the UDC, on average, pays 678 percent more for some prescriptions. This is due to a significant markup on a select number of drugs. To ensure we obtained accurate data on UDC's price, we confirmed the unit price with an MMCAP representative.

To conduct our comparison, we obtained unit pricing information from three providers for December 2012. Noting that prices can fluctuate within a given month, we made the most accurate comparison possible with available data. We initially selected all medications ordered by UDC during December 2012 as our sample. However, some of the entities we compared with did not have drug prices available for those used by UDC during the month of December. Accordingly, we sampled only those drugs where all four providers had an available drug price.

Since the other entities' prices were protected information, we could not determine exactly why this difference occurred. However, we did send an MMCAP representative the drugs' identification numbers and the UDC price we used in our analysis to verify the accuracy of the data. The MMCAP representative confirmed the prices we used were correct. The representative did not have any further explanation as to the substantial price differences other than to suggest that UDC and State Purchasing officials request a more complete review of drug prices obtained through MMCAP. Figure 4.2 provides the percent difference for 10 of the 48 significant outlier drugs identified in our review, we compared UDC's drug prices to three other providers.

We compared UDC's prescription prices against drug prices paid by three other providers.

Figure 4.2 UDC Paid Much More for Certain Drugs Compared to Local Providers In December 2012. This figure presents the large difference between the price UDC paid and the prices charged by 3 other providers for 10 drugs. In some cases, UDC paid 700 to 800 percent higher for certain drugs compared to other local pharmacy prices.

Percent UDC Higher Than Other Providers—December 2012			
Drug	Provider A	Provider B	Provider C
Drug A	887%	786%	794%
Drug B	707	587	515
Drug C	614	782	307
Drug D	386	441	779
Drug E	421	393	397
Drug F	390	359	363
Drug G	598	248	359
Drug H	306	383	381
Drug I	199	353	665
Drug J	738%	212%	217%

Source: OLAG Analysis of three other providers' pharmacy pricing data

Figure 4.2 lists just a sample of drugs for which UDC was paying higher prices compared to the three other Utah providers. Additionally, we found other examples where UDC was paying as much as 1,000 percent higher than prices charged by the other sampled providers. Despite the analysis of these outliers, UDC is still paying less, overall, for their prescription drugs.

UDC Paying Less for Medications Compared to Providers

Compared to the other three providers UDC, on an aggregate basis, is paying less for their prescriptions drugs. Figure 4.3 shows how UDC drug prices compares to the other providers. The information shared with us was proprietary, therefore we do not disclose specific drug prices in our report.

For certain drugs, UDC paid much more than other local providers. In some cases, UDC paid 700 to 800 percent more.

On an aggregate basis, UDC is paying less for their prescriptions.

Figure 4.3 UDC Drug Prices Compared to Three Other Utah Providers. In aggregate, UDC pharmacy costs are less than the other three providers for the drugs we compared.

Provider	A	B	C
Percent UDC Lower Than Other Providers	22%	17%	16%
Estimated Monthly Difference Between UDC and other Providers	\$51,000	\$36,000	\$34,000

Source: OLAG Analysis of three provider's pharmacy pricing data
 Note: this analysis accounts for utilization of drugs and is based on pricing for December 2012

Figure 4.3 shows UDC pays less on an aggregate basis for prescriptions compared to three other providers; for example, UDC is paying \$34,000 or 16 percent less than Provider C. However, as shown in Figure 4.2, UDC utilizes a number of prescriptions that are far more costly when compared to the other three entities, so UDC could further increase savings if it looked into reducing the cost of these higher-priced prescriptions.

Figure 4.4 shows that, factoring in utilization of the outlier drugs, if UDC could lower the price on the 48 outlier drugs to a price commensurate with the three other providers, it could potentially save about \$167,000 a year.

UDC pays less on an aggregate basis for prescriptions compared to three other providers. However, UDC utilizes some prescriptions that are far more costly.

Figure 4.4 Potential UDC Savings Exist if Some Drugs Could Be Reduced to Other Providers' Rates. Using the prescription prices the other entities are currently paying, UDC could save about \$167,000 by reducing the price of the 48 outlier drugs.

	Aggregate Cost Savings		
	Provider A	Provider B	Provider C
Annual UDC Savings	\$ 168,000	\$ 167,000	\$ 167,000

Source: OLAG Analysis of three provider's pharmacy pricing data

UDC could save about \$167,000 annually by reducing the price on certain drugs.

According to Figure 4.4, if the UDC had similar prices to the three other compared providers, they could potentially save \$167,000 annually—given the assumptions that the same 48 drugs and the same quantities of each drug are utilized each month in a year. Likewise, potential savings could be even greater if utilization of these drugs increased. UDC and State Purchasing should review the utilization of drugs at the prison and the price of those drugs with MMCAP to determine where better prices can be obtained or different drugs can be used.

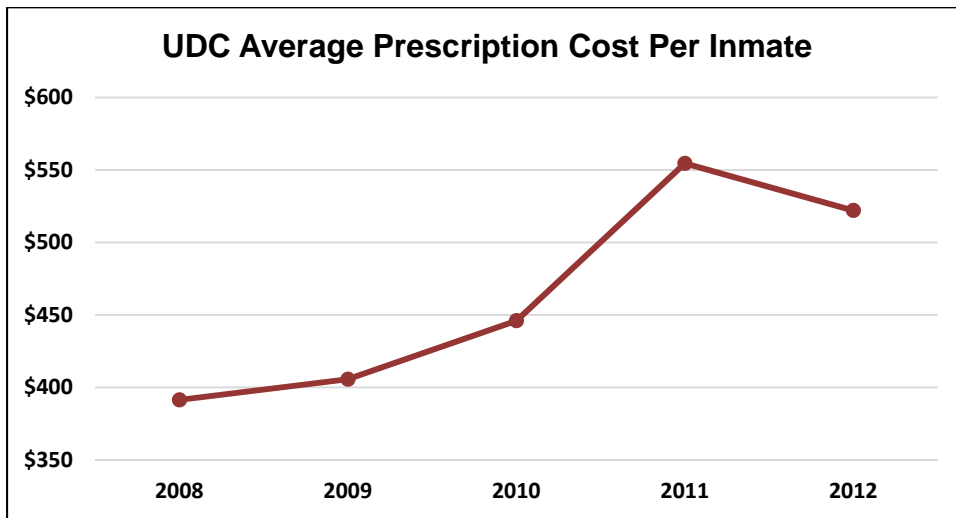
UDC and State Purchasing Should Work Together To Assure Pharmacy Prices Are Competitive

The MMCAP representative we worked with believed that they could help UDC lower the price on the outlier drugs we identified. Further, the representative requested that UDC and State Purchasing file a formal request for MMCAP to conduct a complete review on all prices, types, and utilization of drugs at UDC. This review could identify substitute drugs, different pricing options, and improved utilization scenarios that would continue to meet the pharmacy needs of state inmates while lowering costs. This suggestion was also made by one of the three providers after reviewing the list of drug codes being used at the prison. We recommend UDC and State Purchasing follow through on MMCAP's request, especially in light of the continued overall increase in drug prices that have occurred at UDC.

The vendor supplying drugs to UDC believes that they could help UDC achieve lower prices on the outlier drugs.

UDC's cost for prescription drugs has increased substantially since fiscal year 2008. We recognize that much of that change is due to overall increases in prescription drug prices. However, in light of the findings of our comparison with other providers, UDC and State Purchasing should work more closely together to determine if there are ways to better contain pharmacy costs. Figure 4.5 shows that pharmacy costs for the UDC have increased by 41 percent since 2008 when compared to itself. The cost in Fiscal Year 2012 to provide prescription medications to inmates was approximately \$3.5 million, or about \$520 per inmate. (Appendix C provides more information on costs of pharmacy over the last five years.)

Figure 4.5 Prescription Cost Per Inmate Has Substantially Increased Since 2008. Prescription costs per inmate has increased more than \$130 per inmate since 2008.



Source: Utah Department of Corrections

Pharmacy costs steadily increased from 2008 to 2011 and then dropped slightly in 2012.

As shown in Figure 4.5, pharmacy costs steadily increased from 2008 to 2011 and then dropped slightly in 2012. UDC reports that the decrease in expenditures in 2012 is likely due to a switch they made from name-brand antipsychotic drugs to generic brand prescriptions. We believe other similar cost savings measures may be available to UDC. UDC is facing significant budgetary pressure in its pharmacy budget and should use information presented in this report to stabilize its pharmacy prices. We recommend UDC and State Purchasing work with MMCAP to conduct a complete review of drug prices and determine if they can obtain lower drug prices.

UDC Should Review Ways To Automate Its Claim System

The UDC Clinical Services staff spend a large percentage of their time manually inputting medical claims into its internal database. Processing provider payments using a manual processing system can be error prone and weak in detecting duplicate payments, overpayments, and other errors. A recent UDC internal audit estimated an annual personnel cost savings of \$89,000, and potentially \$140,000 in additional savings by switching to an electronic claims system. This UDC internal audit was released last year, but we have revisited the issue because its recommendation has gone unimplemented, even though potential savings to the state are significant.

Manually inputting and updating information is time consuming. Along with the higher personnel costs associated with updating the database, manually inputting data also has a relatively high human error rate. Instances of human error could lead to a simple record duplication or a severe error such as adding an extra number to the invoiced price. Through proper controls, many of these duplications and other errors are caught; however, we are uncertain how many errors have gone unnoticed and uncorrected, potentially costing UDC money on services not provided.

The costs to manually input data are high. In a 2009 report, a UDC internal audit found that manually processing claims was costly to the DCS (clinical services).

The Department currently devotes approximately \$89,000 in resources to manually process medical claims.... Studies show that manual entry generally has around a two percent error rate, in addition to potential risks that accompany an unmonitored contract. Therefore, approximately \$140,000 of offsite medical claims had an error, assuming two percent of the claims had data entry errors. While this does not necessarily represent over- or underpayments, we are concerned that the errors likely occurred.

A preferred alternative to manually processing data is the use of an automated system. Automated systems, where billing is recorded and

UDC manually inputs medical claims data, which can be time consuming, expensive, and prone to errors.

Automated claims processing systems are more efficient and produce fewer errors than manually processed claims.

medical procedures are updated electronically, tend to have lower error rates. The current UDC claims processing system is often complicated and slow, and often takes between four to six weeks to complete. During this time it is possible for the claim to have been dropped, without stopping the payment process. By sending the data electronically, UDC staff could shorten the time required to process multiple claims. It is possible that by automating claims, errors will decrease along with personnel costs. In addition, some automated systems can detect many types of fraud, waste, and abuse—which researchers estimate could have an error rate from three to ten percent.

Although it is assumed that there will be some costs to utilizing another department’s electronic claims system, UDC could save approximately \$89,000 annually in medical staff costs. UDC could also avoid an additional \$140,000 from errors by switching to an automated claims processing system.

Other departments in the state have automated systems. For example, the Department of Health (DOH) maintains the Medicaid Management Information System (MMIS) and is willing to work with UDC to process their claims through this system. A representative from DOH said that UDC’s use of the MMIS would need federal approval to proceed, but believed it was a definite possibility that should be explored. UDC should seek to enter into an agreement with DOH or some other claims processing entity (such as PEHP) to have their claims processed electronically. This partnership has the potential to save UDC money and better allocate resources.

Recommendations

1. We recommend the Utah Department of Corrections (UDC) follow procurement best practices and competitively bid its offsite medical contract. If UDC does not receive an adequate number of bids, we recommend that UDC renegotiate its current contract, emphasizing the potential areas for cost savings identified in this audit.

Automated claims processing systems exist in other departments. UDC could partner with another state entity to process its medical claims.

2. We recommend that the Utah Department of Corrections (UDC) and the Division of State Purchasing and General Services work with the Minnesota Multistate Contracting Alliance for Pharmacy to conduct a complete review of drug prices and utilization rates to determine where adjustments can be made to lower drug prices, especially on those drugs where UDC is paying significantly high prices.
3. We recommend that the Utah Department of Corrections (UDC) review ways to automate its claims processing system. UDC should also review options of partnering with another state entity that already owns and processes claims electronically.

Chapter V

Current Jail Contracting Costs Lack Sufficient Comparison

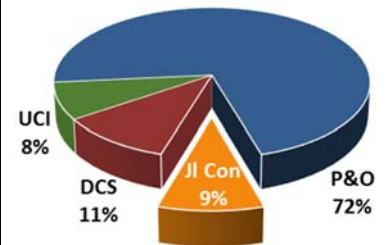
The jail contracting appropriation is significant, comprising 9 percent of all Legislative funding to the Utah Department of Corrections (UDC). The Legislature is examining whether the Draper prison should be relocated and whether counties should provide new services, such as providing more beds to house correctional inmates. Current lack of prison space and other factors requires county jails to house about 20 percent (or 1,500) of state inmates. In fiscal year 2013, county jails were paid \$46.85 per day to house state inmates. The cost to house a state inmate in prison in fiscal year 2013 (with capital depreciation) was \$79.44 per day. The price UDC pays appears to be much higher than county jails, however, there are costs borne by UDC that are not by county jails. However, without having all relevant county jail costs to compare with UDC's costs, it cannot be completely determined whether the state saves money by housing correctional inmates at county jails.

We were able to perform only a limited review of the state's daily incarceration rate as part of our in-depth budget review of UDC, since a full analysis of jail contracting was outside the scope of this audit. We did, however, review a cost comparison analysis performed by UDC that attempts to compare costs the state incurs in operating prisons with similar costs counties incur in operating jails. We recommend that, both UDC and the county jails conduct an analysis to identify and agree on cost differences, or that the Legislature call for a full audit. As outlined in Chapter I, additional information is available in Appendix D detailing historical trends for jail contracting.

County Jails House A Significant Number of Inmates

Jail Contracting is a program that houses state inmates in county jails rather than at one of the state's prisons. The jail contracting program helps the state manage the demand for more prison bed space and helps local governments offset costs by filling their excess

Prisons and jails have different operating costs and a straight comparison of costs is inaccurate.



UDC and the county jails should conduct an analysis to identify and agree on cost differences, or the Legislature should call for a full audit.

capacity in local jails. Figure 5.1 shows a 10-year breakdown of county jail utilization.

Figure 5.1 Utilization of County Jails for State Inmates. Since 2003, county jails have consistently housed about 20 percent of the total state inmate population. Total population counts are average inmate counts over the year.

County jails have historically housed about 20 percent of state inmates.

Year	State Inmates In Jails	State Inmates in Prison	Total	Contracting % of Total
2003	1,096	4,286	5,382	20%
2004	1,086	4,551	5,637	19%
2005	1,154	4,827	5,981	19%
2006	1,189	5,065	6,254	19%
2007	1,274	5,026	6,300	20%
2008	1,312	5,077	6,389	21%
2009	1,254	5,067	6,321	20%
2010	1,224	5,226	6,450	19%
2011	1,326	5,373	6,699	20%
2012	1,463	5,274	6,737	22%

Source: Utah Department of Corrections. Note some of these housing numbers may not agree with other UDC reports due to rounding and time period considerations.

According to Figure 5.1, UDC's use of county beds has increased since 2003, as has the total state inmate population at UDC, which has kept the percentage of the prison population in county jails between 19 and 22 percent.

County Jails Receive a Percentage of State Daily Incarceration Rate to House State Inmates

Each fiscal year a new jail contracting rate is approved by the Legislature.

Each fiscal year, UDC determines a new average state daily incarceration rate (as defined in *Utah Code* 64-13e-102) for payment to jails housing prison inmates. This payment rate is reviewed with the Utah Sheriff's Association, local elected officials, the Commission on Criminal and Juvenile Justice (CCJJ), and the Governor's Office of Management and Budget (GOMB). The rate reflects the actual expense of housing an inmate at UDC prisons. After the review of the average state daily incarceration rate, the Legislature designates a final state daily incarceration rate. *Utah Code* 64-13e-105(3)(b) states:

Nothing in this chapter prohibits the Legislature from setting the final state daily incarceration rate at an amount higher or lower than the average actual state incarceration

rate or the final state daily incarceration rate that was used during the preceding fiscal year.

The final state incarceration rate for fiscal year 2014 was \$46.85 (\$50.70 for jails that offer inmates programming). Appendix D.2 provides additional history and detail on past rates.

Security at County Jails is Critical When Housing State Inmates

County jails house about 20 percent of state inmates. Current UDC policies determine who is eligible for placement in county jails. Generally speaking, UDC sends inmates to jails that are easier to manage and have less serious convictions. However, there are discussions about increasing the number of inmates housed in county jails. Increasing inmates in jails may require UDC to change their policies to allow more serious or “risky” offender in jails. Changing the policy in this way would require UDC to ensure security at the jails could handle a more serious offender.

Our 2008 legislative audit of jail contracting found significant security risks at some county jails, such as two inmates escaping from a jail in Daggett County. The inmates, who were at large for six days, bound a man at knifepoint. They were captured by Wyoming Highway Patrol after a gun fight occurred. UDC reports that risks such as these have been mitigated; but, in general terms, county jail security is not as intensive as prison security. While we did not consider UDC’s jail contracting policy or security of jails in this review, it is a crucial aspect that needs to be considered when reviewing how many inmates to place in county jails.

State Prison Bears Costs Not Passed on to County Jails

The state does not pass on all its costs to county jails through the jail contracting program. For example, medical and transportation costs are not factored into the rate paid to county jails. Further, the state has administrative overhead costs that county jails may not have. Accordingly, it is insufficient to conduct a cost comparison between the prison and the jails by simply calculating the difference between the prison’s daily incarceration rate and the jail contracting daily rate.

Increasing inmates in jails could require UDC to change their policies to allow more serious or “risky” offenders in jails.

The state does not pass on all its costs to county jails through the jail contracting program.

UDC conducted a cost comparison between the state's daily incarceration rate and the rate paid to jails. A full audit is needed to validate UDC's comparison.

UDC Estimate Shows Similar Costs Between the Prison and Jails after Accounting for Cost Differences

UDC conducted a cost comparison between the state's daily incarceration rate and the rate paid to jails in the contracting program. The cost comparison accounted for differences between the two types of facilities. However, since the scope of this report was limited to a review of the UDC budget, we did not have the time or resources to conduct an in-depth review to determine if UDC's methodology is accurate. If the Legislature requested a full audit of this issue, we would provide a more complete analysis by evaluating UDC's cost determination used in this chapter.

UDC Analysis Identifies Costs Not Associated with a County Jail. Figure 5.2 shows a UDC estimate of costs it incurs that are not incurred by county jails. For example, UDC pays all medical and transportation costs for state inmates, so jails do not have these costs. Medical costs are a substantial cost to the state and significantly increase the inmate cost per day.

Figure 5.2 UDC Analysis of Additional UDC Costs – Based on Fiscal Year 2012 Data. This chart shows a UDC analysis of costs incurred by UDC that are not incurred by county jails.

Costs Incurred by Corrections but Not County Jails (Per Inmate per Day)	FY 2012
Costs in Question	
Department Executive Director Overhead	\$ 1.42
Department Admin Overhead	3.36
Division Overhead	4.84
Motor Pool	0.05
Subtotal	9.67
Costs Not Incurred by Jails – Through Jail Contract	
Transportation	1.45
Medical	8.79
Mental Health	1.87
Programming*	6.34
Dental	0.57
Subtotal	19.02
Total Subtracted Costs	
	28.69
Prison Daily Rate – FY 2012	74.99
Adjusted Cost per Day (daily prison rate – costs)	46.30
FY 12 Approved Jail Contracting Rate	45.00
Difference Between Adjusted Rate and Approved Rate	\$ 1.30

Source: Utah Department of Corrections

* Programming costs are incurred for those county jails that offer programs, but it is paid in addition to the basic jail contracting rate. Accordingly, it is backed out here to accurately obtain the basic jail contract rate subtractions. Programming is an important aspect of incarceration.

Figure 5.2 shows UDC’s analysis that about \$29.00 or 39 percent of the prison daily incarceration rate of \$74.99 for Fiscal Year 2012, are costs that the jails either do not or may not have. Note that the analysis does not factor in additional funds for programming for UDC or the jails side. We believe programming is a very important component of incarceration and should be a consideration for housing inmates, but this analysis focused strictly on base housing costs. The UDC analysis has not been independently validated and may contain errors.

Additional Analysis Required to Identify All Costs of Housing Inmates at County Jails

UDC understands that the analysis in Figure 5.2 is limited without all jail costs. Further, we make no determination in this report about the current or future use of jails for housing state inmates. As shown,

UDC’s analysis estimates that about \$29.00 or 39 percent of the state’s incarceration costs are not passed on to county jails.

A more complete cost analysis is needed to determine the actual cost comparison of housing state inmates in county jails.

county jails have been housing state inmates for many years. Several scenarios exist that could increase or decrease that number in future.

Currently, a committee has been commissioned to address the question of whether or not the prison should be moved. There has also been discussion about increasing contracted bed space at county jails to allow more correctional inmates to be housed. A more complete analysis with accurate, comparable costs is needed to determine the actual costs of housing inmates at the county jails.

Recommendation

1. We recommend that, in the absence of a full audit, UDC and the county jails conduct an analysis to identify and agree on cost differences; alternatively, the Legislature could request a full audit of jail contracting.

Chapter VI

UCI Needs Performance Measures

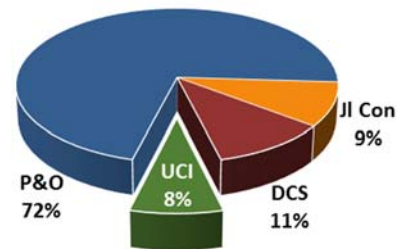
The Utah Division of Correctional Industries (UCI) is a self-sustaining function of the Utah Department of Corrections (UDC). UCI is an enterprise fund with a mission to train inmates in a skill before releasing them back to the community. UCI seeks to provide this training service while ensuring the business operations are self-sustaining. The division fulfills this mission by using inmate labor to provide goods and services to government agencies, including state, county, and city governments; school districts; special service districts; and nonprofit organizations. In this report, we evaluated UCI based upon its stated mission and reviewed UCI's budget from fiscal years 2008 through 2012.

Our review found that UCI has remained self-sustaining and has not required additional funds, including any General Funds. UCI has several work programs that help train inmates and eventually prepare them for employment after their incarceration. However, UCI does not have performance measures on these work programs to adequately track the success of its mission to both train inmates and remain self-sustaining. For example, UCI was not able to demonstrate to us which of their several work programs have the best success rates at placing inmates in jobs. UCI should develop specific performance measures that calculate both the programs that best help inmates rehabilitate and return the best financial profit, then place inmates in those proven work programs.

Legislature Established UCI to Resemble The Private Business Environment

The Utah Correctional Industries Act was passed in the 1985 General Session. The Legislature's intent was that the program "provide an environment for the operation of correctional industries that closely resembles the environment for the business operations of a private corporate entity," and directed it to be accountable to both the Legislature and the Governor.

UCI was created to help inmates build skills transferable to the business world and remain self-sustaining in its business operations.



UCI was designed as a self-supporting organization responsible to train inmates in general work skills in an effort to increase their employment prospects after incarceration.

Utah Code 64-13a-2 further states that it is the intent of the Legislature to:

Create a Division of Correctional Industries which: is a self-supporting organization; is profit-oriented; generates revenue for its operations and capital investment; and assumes responsibility for training offenders in general work habits, work skills, and specific training skills that increase their employment prospects when released...”

The statute also gives UCI a Legislative budget line item for appropriated funds; however, UCI has never received an actual General Fund appropriation. Instead, the Legislature approves UCI’s funding from gains made in UCI’s day-to-day business operations.

UDC reported to us that state agencies are not utilizing UCI as mandated in state statute. *Utah Code* 63G-6a-804 stipulates that state departments, agencies, and institutions “may not purchase any goods or services provided by the Correctional Industries Division from any other source unless it has been determined in writing by the director of Correctional Industries and the state procurement office....” (Refer to Appendix E.2 for full text.) However, UDC management says this provision often goes unenforced and state agencies often do not purchase through UCI.

UDC administration also reported that, to their knowledge, there is no statute that requires UCI to refrain from contracting with private businesses. Even though UCI apparently is not bound to serve state and nonprofit organizations exclusively, UDC staff report that they do not regularly advertise or promote their services outside of publicly funded entities. In fact, only a fraction of UCI’s revenues come from providing goods to private companies or to the general public.

UCI Does Not Have Adequate Performance Measures

UCI lacks performance measures to drive its business decisions. One of UCI’s primary responsibilities is to train and prepare inmates for future employment after incarceration; however, no performance measures are currently being utilized. Like many correctional

UDC reports that state agencies are not utilizing UCI as mandated in state statute.

industries programs throughout the country, UCI runs its operations like a business entity and is responsible for being self-sustaining while fulfilling its unique mission of assisting inmates. UCI has been successful in sustaining itself without assistance from the General Fund; however, without performance measures, it is unclear if the division has maximized its ability to assist inmates.

UCI Trains Inmates but Lacks Appropriate Measures to Prepare Them for Future Employment

The Legislature gave UCI the “responsibility for training offenders in general work habits, work skills, and specific training skills that increase their employment prospects when released.” During our limited review, UCI was not able to provide any statistics or measures of success for inmates who do and do not (to establish a baseline) go through a UCI work program. It appears that UCI does not currently track how successful the programs are at preparing inmates for future employment. Therefore, overall effectiveness in preparing inmates for future employment is unknown and does not appear to be a guiding factor in making business decisions.

UCI staff explained to us that their work programs reduce the likelihood that inmates will return to prison. However, UCI and other levels of management at UDC were unable to provide data on this measure, and instead stated that inmates who are predisposed to seek out work activities while incarcerated (through UCI) may also be the same segment of the population predisposed to actively seek out employment once released. The difficulty of tracking UCI work program impact on recidivism may complicate UCI’s ability to measure such data; nevertheless, UCI should gather job placement statistics and track performance goals related to recidivism rates among inmates participating in a UCI work program. We understand that a UDC program within the Division of Programming may already be engaged in tracking inmates’ job placement after incarceration. We encourage UCI to see if there is useful information UDC is already collecting which they can utilize.

UCI does not currently track how successful the programs are at preparing inmates for future employment.

UCI should gather job placement statistics and track performance goals related to recidivism rates.

Other states keep detailed performance records on work program successes and inmates' success after incarceration, which UCI could consider using.

Other States Track Performance in Correctional Industries Programs

Similar programs to UCI exist in other states throughout the country, and such programs are touted for the positive outcomes produced from their operations. The National Correctional Industries Association, for example, states on its website that correctional industry work programs do the following:

- Enhance public safety by reducing crime
- Save taxpayers money
- Strengthen local and state economies
- Facilitate successful reentry
- Embrace restorative justice principles

Although UCI believes many of these benefits are currently being derived from UCI's business operations, staff were not able to provide us with any evidence. However, we found that other states keep detailed performance measures to track this and other information. For example, we were told that Tennessee and Oregon are two states that keep good performance measures on their correctional industries programs. We have provided a summary of their measures below.

- UCI's comparative organization in Tennessee, TRICOR, tracks two major objectives, 'sustainability' and 'impact'. Their metrics of sustainability evaluate overall revenues, net operating income, number of new businesses established, and number of offenders who go through programming daily. In their 'impact' measure, TRICOR staff track number of offenders who complete their courses, the offender's three-year recidivism rate, and cost savings to the State of Tennessee by evaluating other key indicators.
- Oregon's correctional industries tracks each individual inmate's daily work and program assignments. Inmates are required to engage in a mixture of 40 hours of treatment, education, and work programs in an effort to prepare them to better work in the business world.

To improve performance measures, UCI should consider implementing tracking methods similar to those used in Tennessee,

Oregon, or other states that measure inmate performance in correctional industries work programs.

UCI Operates Like a Business And Does Not Require Additional Funding

Along with UCI's mission to provide training to inmates, the division must maintain profitability. UCI is a self-sustaining entity, financially independent from UDC, and is accountable for its operations to the Legislature and the Governor. UCI considers self-sustaining to mean the ability to cover all operational and administrative expenses through revenues generated from the services and products provided by the inmates. For example, in fiscal year 2012, UCI paid for the following:

- \$12.7 million in purchases, materials, and services for resale
- \$5.2 million in administration costs
- \$1.9 million in rentals, maintenance, and depreciation
- \$1.2 million in supplies, utilities, data processing, and advertising

In fiscal year 2012, UCI paid for all costs associated with the inmate work programs and those administrative costs required to remain profitable. Total expenditures were roughly \$21 million, all of which was paid for with earnings from UCI business operations.

Since 1985, the UCI program has managed to remain self-sustaining even in years of operating at a loss, such as in 2009 and 2010. The division has remained self-supporting by consolidating work programs, reducing inmate workers and full-time equivalent employees (FTEs), and utilizing retained earning funds. From 2008 to 2012, for example, UCI eliminated 10 percent of its work programs. Of those programs remaining in fiscal year 2012, 80 percent have been operational for five years or longer.

While recovering from the effects of the recent recession, UCI significantly reduced the number of inmates in work programs. UCI reduced inmate counts by 41 percent from 2008 to 2010 to compensate for declining revenues in those same years. However, at

UCI has reduced the number of work programs, inmates trained, and full-time staff to remain self-sustaining.

the end of 2012, UCI is now training nearly as many inmates as were trained at pre-recession levels, in a variety of work programs.

Similarly, UCI has lessened the full-time staff over the last five years. From 2008 to 2012, FTEs have been reduced by nearly 23 percent. The reduction of FTEs is to be expected as work programs have been consolidated; however, it is not certain whether additional FTE positions were eliminated outside of those terminated work programs.

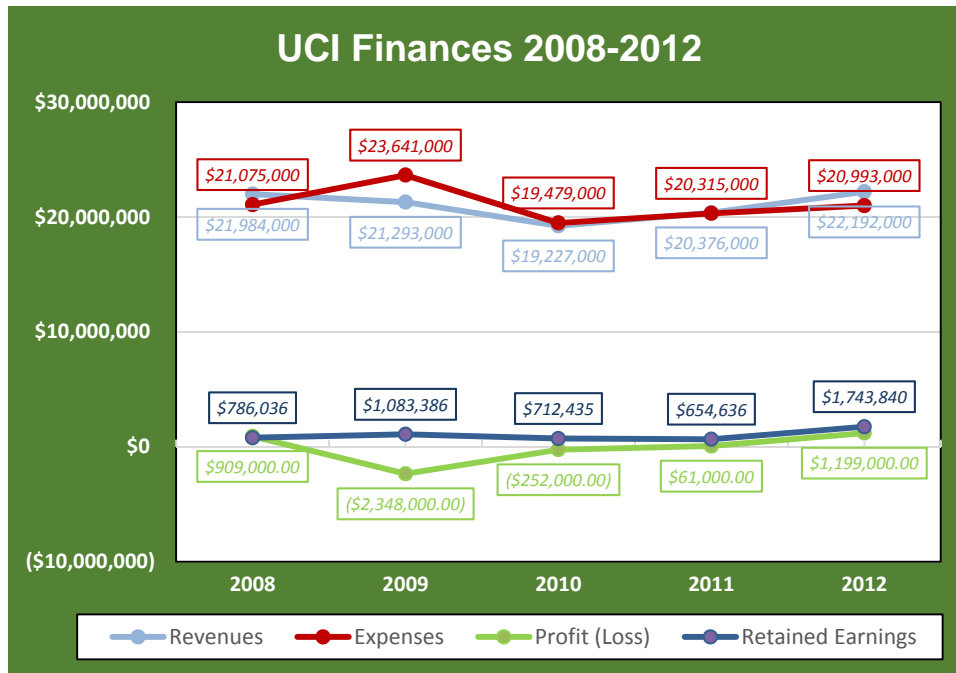
Because UCI's main responsibility is to provide training to increase the likelihood that inmates will find job opportunities once released, we wondered if the decisions to eliminate work programs and reduce inmate workers and FTEs were based on consideration of what was best for the inmates or what was best for UCI as a business. UCI management was not able to tell us in what ways they determine which programs are best for inmates. Instead, they told us that most business decision they make are based on what best benefits the institution and the state. An interplay between these two objectives is found in one of UCI's most profitable work programs, the license plate manufacturing plant. While this work program does not necessarily train inmates in skills transferable to the business world, it is very profitable and helps sustain other UCI work programs. We believe UCI needs to focus more on how a business decision such as this affects an inmate worker, since UCI currently has no indicators or measures of a successful UCI program.

UCI continues to operate with limited funds. Since its creation in 1985, UCI has experienced six years of operating at a deficit, two of which were during the recession in 2009 and 2010. During these years, UCI operated at a combined deficit of \$2.6 million and was sustained by its retained earnings from previous years' profits. However, since 2010, the department is again running at a profit, earning nearly \$1.2 million in fiscal year 2012 alone. UCI's low profit margin compared to revenues can be seen in Figure 6.1.

UCI must not only focus on business strategy to make important decisions, but also the impact specific work programs have on inmates.

In years of deficit UCI uses retained earnings to continue operations.

Figure 6.1 Revenues and Expenses Have Fluctuated over the Last Five Years. UCI had profitable years in 2008, 2011, and 2012, but ran operations at a loss in 2009 and 2010.



Source: OLAG analysis on data provided by Utah Correctional Industries
 *Profits are based on earnings before interest and other non-operating expenses

As Figure 6.1 shows, UCI has a small profit margin. Retained earnings fund levels also remain low due to two years of deficit and continual capital asset purchases and maintenance costs.

Considering the low profit margin UCI has, it is important to note that many of its large profit-generating work programs also have a high cost to maintain. For example, the annual license plate plant cost UCI \$5.6 million from 2008 to 2012, but still brought in nearly \$10.2 million in revenue. And although the 12 largest work programs represent one quarter of the total programs, they account for 67 percent of UCI's costs, and generate 83 percent of the revenues and 426 percent of the profits. Refer to Appendix E.3 to see UCI's 12 most costly (non-administrative) work programs.

UCI generates enough profits to maintain its operations while still investing in capital purchases and improvements. In years when profits are recorded, UCI does not retain those profits as cash; instead, UCI's retained earnings are often reinvested as asset purchases or liability reductions.

Although UCI generates low profit margins, it generates enough profits to invest in capital purchases and improvements.

UCI should focus on their primary mission of preparing inmates for future employment, helping them from re-offending in the future.

Since 2008, UCI has reinvested nearly \$2.7 million in capital asset purchases ranging from software and equipment to land and buildings. In fiscal years 2009 and 2010, UCI did not have a profit; however, 94 percent (or approximately \$2.5 million) of UCIs five-year capital investment expenses were made in those two years. In contrast, in 2012, UCI experienced nearly \$1.2 million in profits (a five-year best) while only spending \$147,000 on capital investments. These spending trends may suggest that UCI continues to generate sufficient profits to maintain operations in difficult years, especially as they continue to purchase needed capital assets.

So, while UCI remains profitable, we are concerned the division has not adequately focused on their primary mission of training inmates in proven work skill development programs. To better prepare inmates, we recommend UCI develop performance measures that track work program successes and their effect on inmate's ability to find work. We believe as they use these measures, they will more effectively fulfill the Legislature's intention of increasing inmate employment prospects once released, and help them from re-offending in the future.

Recommendations

1. We recommend that the Utah Department of Corrections and Utah Correctional Industries collect necessary data to accurately measure the performance of inmate work programs.
2. We recommend that the Utah Department of Corrections and Utah Correctional Industries (UCI) collect necessary data to measure the employment success of all inmates trained under UCI programs after they have been released from prison.

Appendices

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Appendix A

UDC Overview

This appendix provides background material on the Utah Department of Corrections (UDC); the others that follow provide further information that corresponds to each specific chapter topic.

- Figure A.1 shows expense totals and ratios for the Division of Institutional Operations (DIO) and Adult Probation and Parole (AP&P) programs within the Programs and Operations (P&O) budget line item.
- Figure A.2 gives a graphical overview of the P&O budget line item, indicating the various divisions' spending under the major line item.
- Figure A.3 is an organizational chart we created with a financial risk assessment overlay. This helped us, in part, to determine which divisions to look at in greater detail.
- Finally, in Figure A.4 we have provided a summary of all legislative appropriations to UDC through the P&O, Clinical Services (DCS), and Jail Contracting line items from the 2008 to 2012 General Sessions. We have also provided a summary of the nonlapsing authority the Legislature has provided to UDC in those years.

The Legislature has given UDC responsibility to secure and rehabilitate adult offenders in the state of Utah. The mission of UDC is to "...ensure public safety by effectively managing offenders while maintaining close collaboration with partner agencies and the community." Furthermore, the department provides "opportunities for offenders to make lasting changes through accountability, treatment, education, and positive reinforcement within a safe environment."

There are four major UDC budget units to which the Utah Legislature appropriates funds to each year. These four UDC line items are Programs and Operations, Jail Contracting, Clinical Services, and Utah Correctional Industries.

1. Programs and Operations (P&O): The P&O line item (see Chapters II and III) funds the security and rehabilitation of all Utah inmates at UDC. Inmates are currently housed in two prison facilities in Draper and Gunnison and over 20 jails throughout the state. Along with security, P&O also provides rehabilitation programs to inmates at both the prison and other correctional and rehabilitation centers throughout the state. These

programs include therapy for drug abuse violators and sex offenders, along with others. P&O also operates an in-facility kitchen where food is prepared and served to inmates daily.

Another division within the P&O line item is Adult Probation and Parole (AP&P). As a result of court proceedings, sentenced persons may be sent to prison to be under the supervision of the Board of Pardons, or to jail, subjected to conditions of probation, under the supervision of the court. Those violators sentenced by the courts to be on probation and those released from prison on parole are then put under the supervision of AP&P. AP&P works with released offenders to ensure they can safely remain in the community.

2. Division of Clinical Services (DCS): DCS (see Chapter IV) is an in-facility medical unit at UDC that provides medical, psychological, and dental health services to inmates upon request. Although DCS has highly skilled medical professionals and competent medical technology, they contract with the University Hospital in Salt Lake City to provide services and medical procedures that cannot be performed at the prison facility.

3. Jail Contracting: Because inmate populations have outgrown the state's prison facilities, the UDC contracts with county jails to house many low-risk inmates (see Chapter V). UDC pays a predetermined rate to these county jails with funds appropriated by the Legislature. This arrangement is mutually beneficial because it allows county jails to have a constant stream of funding while preventing the state from having to build additional correctional facilities.

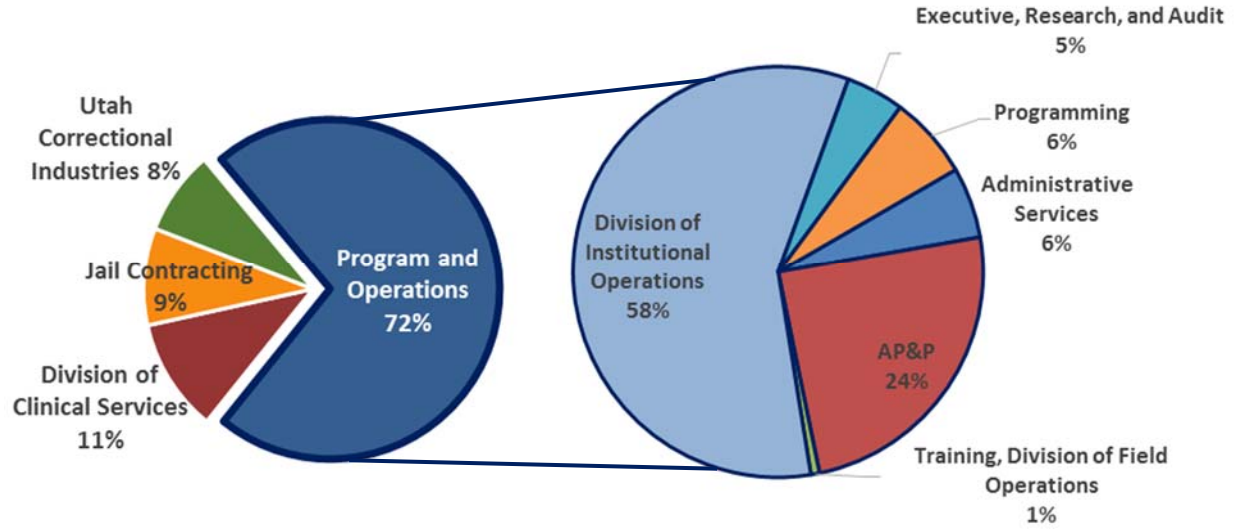
4. Utah Correctional Industries (UCI): While in prison, low-risk inmates are given the opportunity to be a part of a secure work group, ranging from small construction crews to a horse-gentling program. These small business units provide opportunities for inmates to learn a skill and earn income, as well as to provide funding for UCI to operate in the future. Many other states also participate in correctional industries programs (see Chapter VI).

Figure A.1 Summary of UDC Expense Data and Ratios. Expenses shown are those for Programs and Operations and Adult Probation and Parole.

UDC Historical Financial Data 2008-2012					
	2008	2009	2010	2011	2012
Total UDC Appropriations	\$262,363,700	\$281,757,500	\$261,452,700	\$261,423,400	\$263,505,100
Total UDC Expenses	\$265,437,787	\$273,132,645	\$248,461,064	\$252,600,662	\$259,404,866
Average UDC FTEs	2,143	2,263	2,094	2,012	2,034
Personnel Expenses	\$162,175,387	\$176,338,616	\$164,073,779	\$163,592,464	\$165,580,357
Non-Personnel Expenses	\$103,262,401	\$96,794,029	\$84,387,285	\$89,008,199	\$93,824,509
Inmate Population (Prison and Jail)	6,389	6,321	6,450	6,700	6,738

Source: OLAG analysis on data provided by Utah Department of Corrections
 *Due to rounding, not all numbers will necessarily total

Figure A.2 Programs and Operations Line Items for Fiscal Year 2012. Program and Operations (P&O) is the largest budget line item in the Department of Corrections, composing 72 percent of expenditures. Within P&O, the divisions of Institutional Operations and Adult Probation and Parole account for 82 percent of the line item expenditures.



Source: OLAG analysis on data provided by Utah Department of Corrections

Figure A.3 An Organizational Chart of UDC. A risk-based approach was utilized to determine which divisions and programs would be the focus of our in-depth budget review. The red color corresponds to departments that expended more than \$10 million, and the orange indicates departments that expended between \$1 million and \$10 million. Please note other factors were also used in our risk analysis in addition to financial considerations.

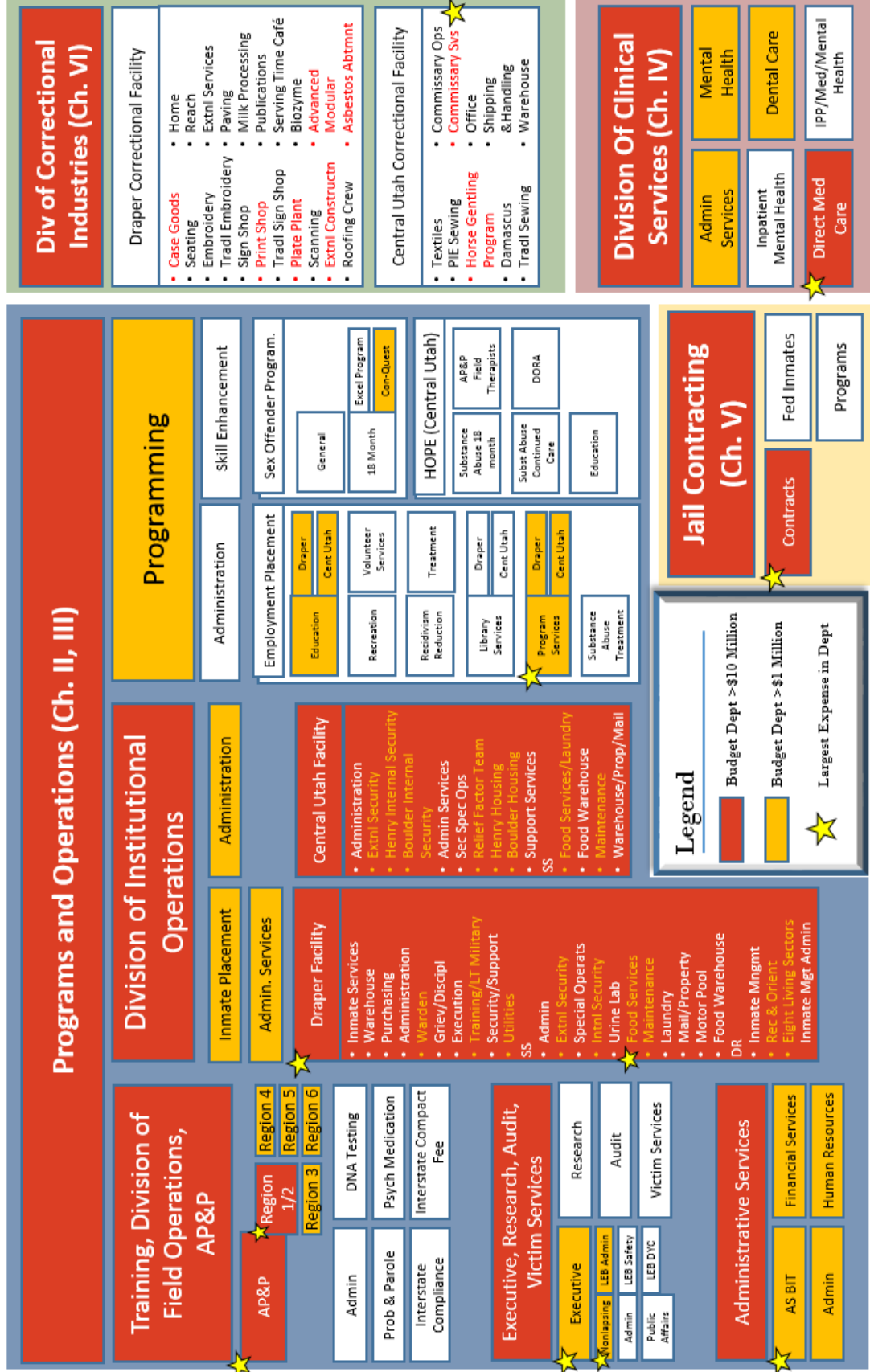


Figure A.4 An Annual Summary of Appropriations Categorized into the P&O, DCS, and Jail Contracting Line Items. This chart also includes a summary of nonlapsing authority given to UDC. It should be noted that although Utah Correctional Industries has its own legislative appropriation line item, it did not receive General Fund appropriations from 2008 to 2012. This data came from annual copies of the Legislative Fiscal Analyst *Appropriations Report*.

Fiscal Year 2008			
Programs and Operations Line Item	Division of Clinical Services Line Item	Jail Contracting Line Item	Nonlapsing Authority
<p>Correctional Officer Recruitment and Retention: The Legislature appropriated \$3,000,000 to increase correctional officers' salaries.</p> <p>Privatized 300-bed Parole Violator Center: The Legislature appropriated \$7,643,100 for a privatized facility that will provide treatment and programming to parole violators.</p> <p>Gunnison 192-bed Full-year Funding: The Legislature appropriated \$7,327,500 for staffing, support, and O & M for the new 192-bed facility at the Central Utah Correctional Facility.</p> <p>Data Processing Reallocation: The Legislature moved \$368,300 from the inactive Data Processing Internal Service Fund to the Programs and Operations line item within the Department for data processing equipment.</p> <p>S.B. 19, "Enhanced Public Safety Retirement Systems Cola Option" funds \$2,240,700 for an increased cost of living adjustment for Corrections officer retirees.</p> <p>H.B. 109 "Sex Offender Law Amendments" appropriates \$200,000 (one-time) for sex offender assessment screenings.</p> <p>H.B. 492 "Sex Offender Notification and Registration" increases the amount of dedicated credits to the Department by \$171,000 for costs associated with the compliance of new sex offender registry regulations.</p>	N/A	<p>Jail Programs: The Legislature funded \$4,000,000 (onetime) for both Jail Contracting and Jail Reimbursement (\$2 million for each) for prison population growth and growth among those who are admitted into county jails as a condition of probation.</p> <p>The Legislature intends that the Department of Corrections spend up to \$3,000,000 in non-lapsing balances for jail contracting in addition to the \$2,000,000 appropriated.</p>	N/A

Fiscal Year 2009

Programs and Operations Line Item	Division of Clinical Services Line Item	Jail Contracting Line Item	Nonlapsing Authority
Administrative Services: The Legislature reduced internal administrative services by \$238,700 in FY 2009 in the September 2008 Special Session.	Medical/Operations: In FY 2009, the Legislature moved \$2,400,000 (one-time) from the Programs and Operations line item to the Medical Services line item.	Jail Contracting: The Legislature reduced FY 2009 funding in the amount of \$1,801,400 in the September 2008 Special Session with a net \$721,000 one-time add-back. For FY 2010, the Legislature reduced one-time funds of \$2,500,000.	Nonlapsing Balances: The Legislature reduced nonlapsing balances by an additional \$1,104,200 in FY 2009 during the September Special Session.
Workforce Services Contract: The Legislature eliminated funding for a contract with the Department of Workforce Services totaling \$414,000 during the September 2008 Special Session.			
Treatment Programming: The Legislature reduced \$1,233,000 of funding for treatment programs for offenders in the September 2008 Special Session for FY 2009.			
Training: The Legislature reduced officer training by \$79,200 in the September 2008 Special Session.			
Inmate Placement: The Legislature reduced \$81,100 of funding for transitional offender services in September 2008.			
Prison Operations: The Legislature reduced \$337,800 of funding for operations at the Gunnison prison and \$1,502,700 at the Draper prison in the September 2008 Special Session for FY 2009.			
Current Expense: The Legislature reduced \$568,200 of funding for current expense and \$500,000 for administration costs in the September 2008 Special Session for FY 2009.			
Adult Probation and Parole Contract Elimination: The Legislature eliminated funding for a food services contract totaling \$500,000 (with a one-time add-back of \$250,000 in FY 2009).			
Pre-funded Operations and Maintenance: The Legislature eliminated pre-funded Operations and Maintenance of \$327,500 for a planned Corrections Facility that was canceled (\$327,500 in one-time funding was added back in FY 2009).			
Drug Offender Reform Act Pilot Project (DORA): The Legislature adjusted funding for DORA – reducing \$3,207,100 of funding with a one-time add-back of \$2,806,200 in FY 2009. For FY 2010, the Legislature reduced an additional \$212,400 with \$948,000 in one-time funds.			
Upper Rank Corrections Officers: The Legislature reduced funding for 22 upper ranking corrections officers totaling \$1,500,000 (with a one-time add-back of \$1,225,000 in FY 2009).			
Diagnostic Center: The Legislature eliminated \$427,400 of funding for the Diagnostic Center which is an assessment center used by the Courts to determine offender risk levels. In addition, this action moved \$750,000 of restricted funds from Corrections to CCJ for FY 2010.			
Transition Center: The Legislature eliminated \$1,241,800 of funding for the transition center which provides life skills and other services for certain offenders for FY 2010.			
Private Parole Violator Center: The Legislature reduced \$5,733,000 of one-time funding in FY 2009 in the September 2008 Special Session and the remaining \$1,910,900 during the General Session. Also, an additional \$6,000,000 in one-time funds in FY 2010 was reduced due to delayed site identification.			
Medical/Operations: In FY 2009, the Legislature moved \$2,400,000 (one-time) from the Programs and Operations line item to the Medical Services line item.			
H.B. 29, "Sex Offenders' Contact with Children" increases dedicated credits by \$29,000 to the courts.			
H.B. 220, "State Payment and Reimbursement to County Correctional Facilities" moves \$55,000 from the Department of Corrections to the Commission on Criminal and Juvenile Justice (CCJ) for programs being transferred in FY 2010.			
H.B. 100, "Department of Corrections - Tracking and Reimbursement of Individual Prisoner Costs" provides \$1,500,000 from the Prison Telephone Surcharge Account for prisoner education costs in FY 2010.			

Fiscal Year 2010			
Programs and Operations Line Item	Division of Clinical Services Line Item	Jail Contracting Line Item	Nonlapsing Authority
Reduced one-time General Fund in FY 2010 by \$8,035,900 that include discretionary adjustments and carry-forward balances.	Transferred \$4,429,000 in ongoing General Fund and \$16,000 in Dedicated Credits from the Programs and Operations line item to the Medical Services line item;	N/A	The Legislature intends that the Department of Corrections may spend up to \$3,600,000 of nonlapsing fund balances to retrofit a building to be used as the Parole Violator Center. (H.B. 3, Item3).
Reduced FY 2011 ongoing General Funds of \$7,600,000 for the yet to be constructed Parole Violator Center, and replaced with \$1,700,000 in one-time funds for a possible alternative.	Transferred \$2,500,000 in one-time General Fund from the Programs and Operations line item to the Medical Services line item for FY 2010.		
Continued funding the DORA program with \$888,100 in one-time General Funds for community offender supervision in FY 2011 (this amount was in addition to funds appropriated to the Department of Human Services and the Courts).			
Moved \$374,700 of ongoing General Fund and \$49,000 of Education Funds from the Board of Regents (within the Higher Education Subcommittee) to the Department of Corrections to fund the Prisoner Education program. This transfer is in relation to H.B. 100, "Department of Corrections - Tracking and Reimbursement of Individual Prisoner Costs" (2009 General Session).			
Transferred the remaining one-time General Fund balance from the Jail Reimbursement line item, \$234,100, from the Department of Corrections to the Finance-Mandated Jail Reimbursement line item within the Department of Administrative Services.			
Transferred \$4,429,000 in ongoing General Fund and \$16,000 in Dedicated Credits from the Programs and Operations line item to the Medical Services line item.			

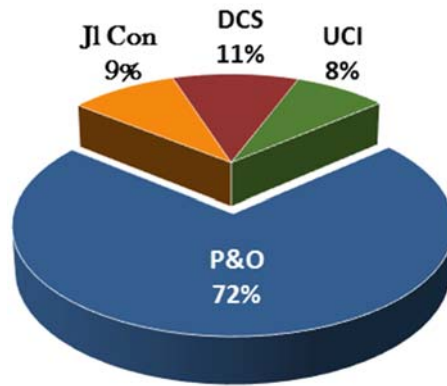
Fiscal Year 2011			
Programs and Operations Line Item	Division of Clinical Services Line Item	Jail Contracting Line Item	Nonlapsing Authority
Reduced administration by \$172,000 in ongoing General Fund in FY 2012.	Transferred \$500,000 in one-time General Fund carryover funds from the Programs and Operations line item to the Medical Services line item for FY 2011 in anticipation of a projected medical shortfall.	Increased Jail Contracting by \$4,970,000 in ongoing General Fund for 300 additional beds in the counties in FY 2012.	The Legislature intends that funds of \$1,500,000 from FY 2011 beginning nonlapsing balances be reserved to provide two months of operational funding for the parole violator center and are nonlapsing at the close of FY 2011. (H.B. 3, #13).
Restored ongoing funding for the DORA program with \$888,100 in ongoing General Funds for community offender supervision in FY 2012.		Transferred \$1,207,900 in one-time General Fund in carryover funds from the Programs and Operations line item to the Jail Contracting line item for additional beds in county jails in FY 2011.	The Legislature intends that the Department of Corrections may spend up to \$3,600,000 of nonlapsing fund balances to retrofit or construct a building to be used as the Parole Violator Center. (H.B. 3, Item13)
Eliminated remaining DNA Specimen account appropriation (functions moved to the Courts in the 2010 General Session) for FY 2012.			
Transferred \$1,207,900 in one-time General Fund in carryover funds from the Programs and Operations line item to the Jail Contracting line item for additional beds in county jails in FY 2011.			

Fiscal Year 2012

Programs and Operations Line Item	Division of Clinical Services Line Item	Jail Contracting Line Item	Nonlapsing Authority
<p>Provided \$2million from the General Fund plus \$9 million in unspent department funds for the operation of the Parole Violator Center.</p> <p>Under Section 63J-1-603 of the Utah Code, the Legislature intends that up to \$9,000,000 of appropriations provided for Programs and operations in Item14 of Chapter 2 Laws of Utah 2011 be used for the operation of a Parole Violator Center.</p>	<p>Internally funded unexpected \$2 million medical shortfall due to rare inmate health conditions (botulism outbreak, bone marrow transplants).</p>	<p>Provided \$2.3 million from the General Fund for contracting with counties (approximately \$1.1 million for an additional 60 beds; \$180,000 for treatment; and an approximate \$2/day increase per contract bed, amounting to \$1.1 million).</p>	<p>The Legislature intends that the Department of Corrections may spend up to an additional \$3,600,000 of nonlapsing fund balances to retrofit or furnish the recently purchased building to be used as the Parole Violator Center.</p>

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Appendix B Programs and Operations Line Item



This appendix provides further information and detail on the Division of Institutional Operations' (DIO) operational costs and other smaller units under the Programs and Operations budget (P&O) line item.

- Figure B.1 summarizes DIO historical data including expenditures, full-time equivalents and cost per inmate ratios
- Figure B.2 shows DIO's fiscal year 2012 personnel vs. non-personnel expenses
- Figure B.3 provides the annual food costs by correctional facility from 2008 to 2012
- Figure B.4 provides further breakdown of food costs, by providing annual food costs per inmate from 2008 to 2012
- Figure B.5 shows spending trends among smaller units in the P&O line item
- Figure B.6 provides information on DIO overtime trends from 2008 to 2012

The P&O line item is composed of the following programs:

- Institutional Operations, which runs the prisons in Draper and Gunnison
- Administrative Services, which handles all administrative duties for the UDC
- Adult Probation and Parole (AP&P), which supervises parolees and probationers after their release from prison or jail
- Executive Director's Office, which houses the executive management, research, and audit areas
- Training, which trains new correctional officers
- Programming, which offers programs to help rehabilitate offenders

Figure B.1 Summary of DIO’s Expenses and FTE and Inmate Ratios. DIO’s expenses have slightly decreased since 2008, while the number of inmates has increased. As a result, cost per inmate has decreased and inmates per full-time equivalents have slightly increased.

DIO Historical Data 2008-2012					
	2008	2009	2010	2011	2012
Total DIO Expenses	\$109,227,600	\$115,509,764	\$110,555,139	\$107,505,973	\$108,432,089
Total Average FTEs	1,263	1,310	1,245	1,221	1,231
Total Average Inmates	6,389	6,321	6,450	6,700	6,738
DIO Cost per Inmate	\$17,096	\$18,274	\$17,140	\$16,046	\$16,093
Inmates to FTE Numbers	5.06	4.83	5.18	5.49	5.47

Source: OLAG analysis on data provided by Utah Department of Corrections

DIO is the largest expense center under the P&O line item and AP&P is the next largest. We did not review AP&P in this audit report; however, a full performance audit of AP&P was conducted concurrently; the report is titled “*A Performance Audit of the Division of Adult Probation and Parole* (report #2013-08). Figure B.2 shows the expense breakdown for DIO into personnel and non-personnel expenses for fiscal year 2012.

Figure B.2 DIO’s Personnel and Non-Personnel Costs for Fiscal Year 2012. The largest total expense for DIO is personnel, which includes wages and benefits. Non-personnel costs would include, for example, direct food costs.

Category	Total Expense 2012	Personnel Percent of Total
Personnel	\$ 79 million	
<u>Non-Personnel</u>	<u>29 million</u>	
Grand Total	\$ 108 million	73%

Source: OLAG analysis on data provided by Utah Department of Corrections

According to Figure B.2, personnel expenses (wages and benefits) account for approximately 73 percent of all DIO expenditures. In non-personnel costs, the highest expense is food (almost one-third of the total non-personnel expense), at nearly \$8 million in fiscal year 2012. The food expense is the total of both prison facilities, Draper and Gunnison. Figure B.3 shows the annual food costs for each facility.

Figure B.3 Annual Cost of Food for Draper and Gunnison Facilities. Food costs have increased for both Draper and Gunnison, resulting in an approximately \$550,000 increase between 2008 and 2012.

Annual Food Cost by Facility					
	2008	2009	2010	2011	2012
Draper	\$5,720,864	\$5,807,821	\$5,403,396	\$5,847,488	\$6,172,825
CUCF	\$1,551,285	\$1,733,328	\$1,715,941	\$1,669,717	\$1,649,514
Total	\$7,272,149	\$7,541,149	\$7,119,337	\$7,517,205	\$7,822,339

Source: OLAG analysis on data provided by Utah Department of Corrections

Figure B.4 Draper Annual Food Costs per Inmate Are Higher than Gunnison's. The annual food cost per inmate has increased since 2008 for Draper, whereas Gunnison's cost per inmate has slightly decreased.

Annual Food Cost per Inmate					
	2008	2009	2010	2011	2012
Draper	\$1,399	\$1,444	\$1,294	\$1,413	\$1,519
CUCF	\$1,181	\$1,274	\$1,254	\$1,072	\$1,082

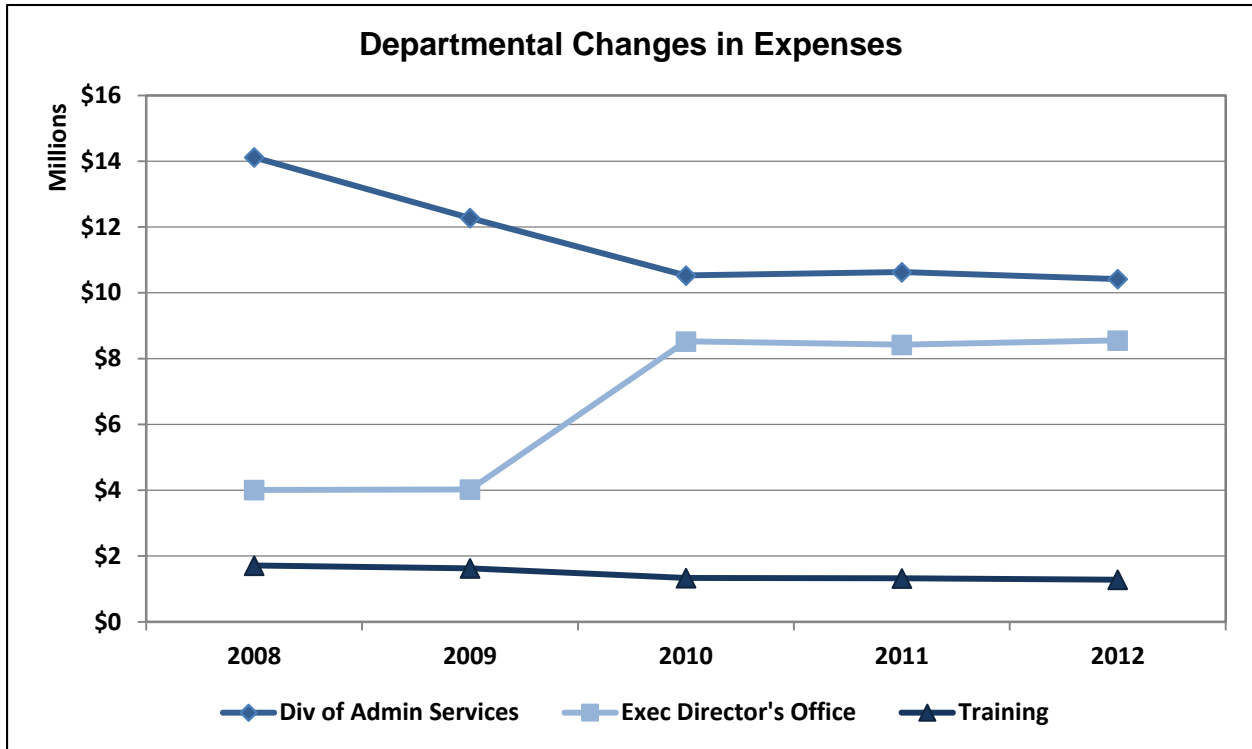
Source: OLAG analysis on data provided by Utah Department of Corrections

Chapter III discusses reasons for the difference in the food cost per inmate between Draper and Gunnison facilities.

Other Program and Operations' Units Have Shown Mixed Spending Trends

The Program and Operations line item contains programs that have shown both increasing and decreasing expense trends since 2008. Because these programs were not discussed in Chapter III of this report, we include a discussion of them here. Figure B.5 shows that, since 2008, of these three programs, both Training and the Division of Administrative Services have reduced spending, while the Executive Director's Office expenses have increased.

Figure B.5 There Have Been Mixed Spending Trends in the Smaller Units of the Programs and Operations Line Item. These fluctuations may reveal changes in organizational structure, executive management priorities, and other changes related to available legislative funding.



Source: OLAG analysis on data provided by Utah Department of Corrections

We discuss the reason for these changes in expenditures in the following section.

Executive Director's Office Has Increased Spending

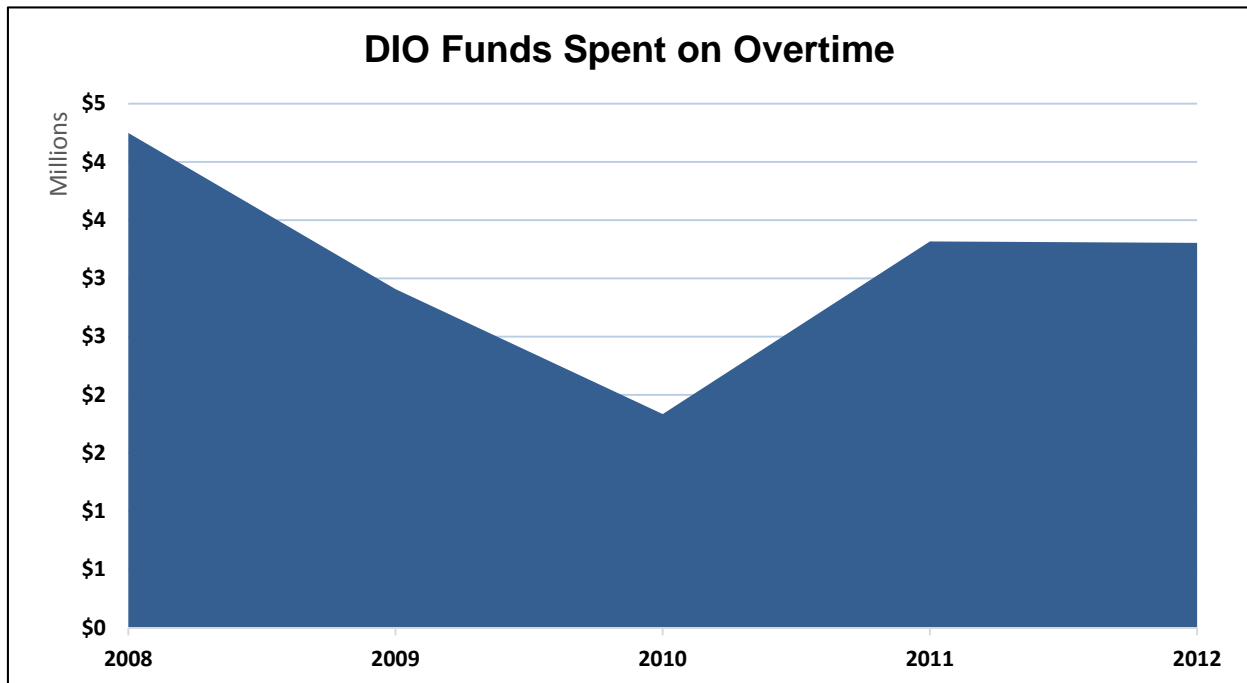
The Executive Director's Office has increased spending from \$4.0 million in fiscal year 2008 to approximately \$8.5 million in fiscal year 2012. The increased spending can be attributed to functional shifting between the Executive Director's Office and the Division of Administrative Services. For example, the internal audit and research functions were previously in Administrative Services but were moved to the Executive Director's Office to better align organizational needs. We believe these transfers adequately explain the spending increases shown. We also found that Training has decreased spending over the last five years.

DIO Overtime Has Fluctuated Since 2008

The Division of Institutional Operations (DIO) reduced FTEs during the recession through a department-wide hiring freeze. As a result, many staff were required to work in a variety of job functions, which we believed would drastically increase overtime hours. However, we found the inverse to be true. As employee positions were eliminated starting in 2009, money spent on overtime hours decreased during fiscal years 2009 and 2010.

After speaking with the warden of the Draper correctional facility, we learned that the positions that were eliminated from 2009 to 2011 were either supervisory positions or office staff positions. These positions normally are not eligible for overtime pay. We found that overtime, therefore, had not increased during the recession, but actually decreased with fewer DIO employees. To see what DIO spent on overtime hours from 2008 to 2012, see Figure B.6. It should be noted that, although the elimination of FTE positions reportedly created a hardship on DIO staff, we were told that public safety was not affected at the prisons.

Figure B.6 Overtime Fell and Then Rose During the Recession. The elimination of staff positions did not increase overtime hours, but actually decreased overall DIO expenses on overtime.



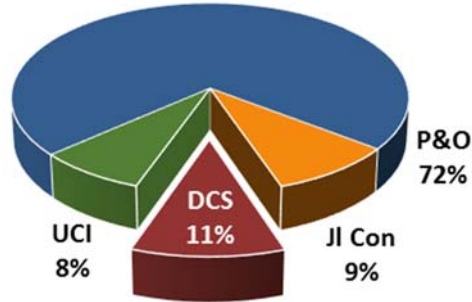
Source: OLAG analysis on data provided by Utah Department of Corrections

As Figure B.6 indicates, overtime hours dropped from 2008 to 2010, then rose and plateaued between 2011 and 2012. The reduction of staff and funds spent on overtime have

helped UDC save and carry over a surplus of \$25 million. However, some concerns with this carry-forward account exist, which are discussed in Chapter II of the audit report.

Appendix C

Division of Clinical Services Line Item



This appendix provides further information and detail on the Division of Clinical Services (DCS) line item. Specifically, this appendix will address the high and increasing costs DCS is faced with each year.

- Figure C.1 provides a summary of financial information, and employee and inmate counts from 2008 to 2012
- Figure C.2 shows that per inmate healthcare costs at DCS have increased since 2008
- Figure C.3 provides a comparison between DCS and surrounding states' healthcare per inmate cost
- Figure C.4 indicates that, in the aggregate, the inmate population is aging
- Figure C.5 shows the cost of unique medical cases that have greatly reduced DCS's budget
- Figure C.6 provides data on the cost of UDC's practice of contracting with medical professionals to work in DCS

Figure C.1 Below is a Summary of DCS Finances over Five Years, Including Supplemental Funds, Number of Medical Staff and Inmates, and Some Informative Ratios.

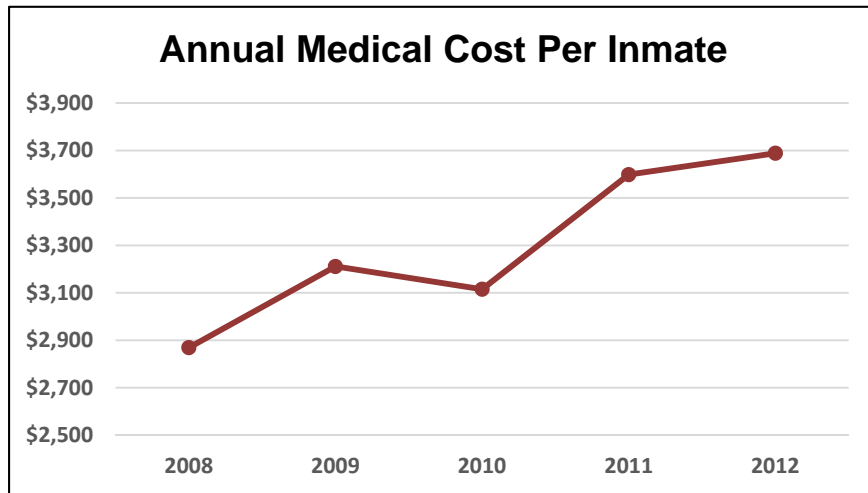
DCS Historical Data 2008-2012					
	2008	2009	2010	2011	2012
Total DCS Expenditures	\$18,330,635	\$20,298,182	\$19,743,567	\$24,107,510	\$24,852,434
Additional Supplemental Funds	\$0	\$2,789,200	\$2,383,500	\$500,000	\$2,000,000
Average Number of Medical Staff	102	111	104	99	98
Average Number of Inmates	6,389	6,321	6,450	6,700	6,738
Appropriation / Inmates	\$2,869	\$3,211	\$3,061	\$3,598	\$3,688
Inmates / Medical Staff	62.64	56.95	62.02	67.68	68.76

Source: OLAG analysis on data provided by Utah Department of Corrections

Medical costs in DCS have increased over the last several years. DCS is responsible to care for the medical, dental, psychological, and overall health of inmates at the Draper and Gunnison correctional facilities. Rising costs of correctional medical care across the nation and some unique medical cases DCS has experienced in the last several years have strained the division’s budget. In fact, it is because of unique medical cases and UDC shifting additional responsibilities into DCS, that DCS has required internal supplemental funds the last four years. An example of UDC shifting greater responsibility and costs onto DCS is the merging of the Draper and Gunnison medical clinics without a commensurate budget adjustment.

The total medical cost per inmate has increased nearly every year since 2008. Figure C.2 shows medical-cost-per-inmate trends over the last five years.

Figure C.2 The Medical Cost per Inmate Has Increased Significantly (29%) Over the Last Five Years. From 2010 to 2011 alone, the cost per inmate increased 16%



Source: OLAG analysis on data provided by Utah Department of Corrections

Figure C.2 shows the trend of increasing medical costs at UDC correctional facilities. The total medical cost per inmate from 2010 to 2011 increased 16 percent; whereas nationally, medical costs for physicians and clinics increased only 4 percent from 2010 to 2011. Further evaluating the medical cost per inmates, we collected criteria on how Utah performs compared to other similar states, including three states that border Utah. Figure C.3 shows how Utah compares to other states.

Figure C.3 The Total Daily Medical Cost per Inmate in Utah Is Good Compared to Other Nearby and Similar States. However, as Chapter IV shows, we believe Utah's costs can be further reduced.

2012 Medical Cost Comparative Data				
	Total Medical Expenditures	Total Inmate Population	Cost Per Inmate/Daily	Number of Medical Staff
Nevada*	\$41,607,986	12,428	\$9.17	N/A
Utah	\$27,904,682	6,738	\$11.35	98
Idaho	\$35,514,135	7,360	\$13.22	161.5
Kansas**	\$48,293,921	9,125	\$14.50	N/A
Wyoming***	\$36,356,148	2,046	\$48.68	140

Inmate populations are yearly averages and will not total exactly to medical expenditures

**Nevada is not currently certified with the National Commission on Correctional Health Care, which may ease restrictions on their quality of care.*

***Kansas was chosen for this medical cost comparison because it has a similar prison population to Utah and Idaho.*

****Although these numbers vary from other state's data, they are consistent with a 2011 national study.*

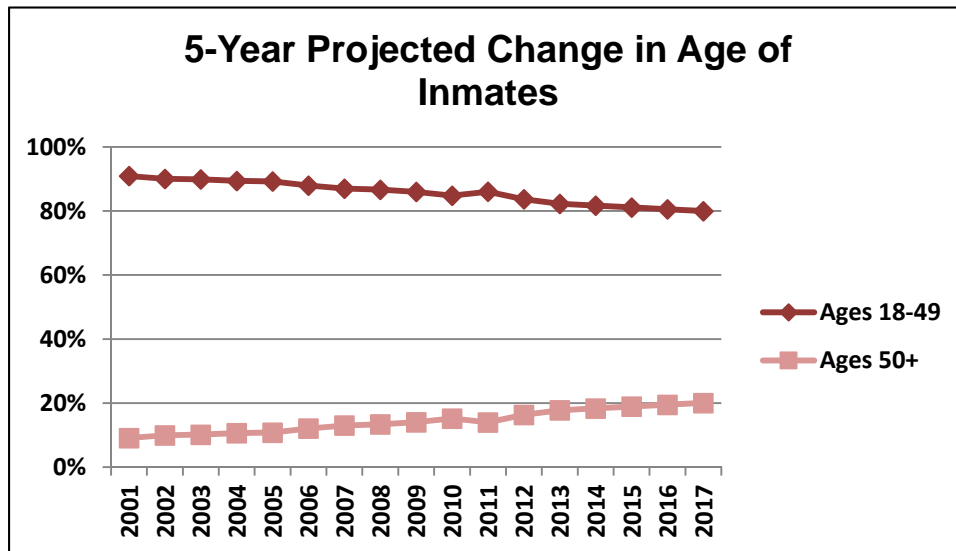
Figure C.3 shows that Utah's daily medical cost per inmate is very competitive with similar states in the country. It should be noted that some of these states' clinical services programs may be privatized, whereas Utah's corrections medical care is in-house. Also, Utah maintains its certification with the National Commission on Correctional Health Care, and Nevada does not. This certification requires a higher level of health administration for Utah, and potentially allows those not certified to provide lower quality care.

Causes for Rising Costs at DCS

There may be several reasons for the increased cost of medical care at the prison. These reasons include the age increase of the aggregate prison population, shifts in DCS responsibilities, the increased cost of medications purchased for inmates, some inmates' unique medical needs, and UDC's practice of contracting with medical professionals. We have summarized our findings here.

1. Increase in Age: Every year, the average age of inmates in a 50 years and older grouping increases by about 1 percent. With increases in age come higher medical costs associated with aging, including those related to preventative care. Figure C.4 shows that the age trend of incarcerated males is increasing.

Figure C.4 The Proportion of Males Older than 50 Is Increasing by About 1 Percent of the Total Prison Population Each Year. A five-year projection estimates that, by 2017, those inmates 50 years and older will comprise 20 percent of the total inmate population.



Source: OLAG analysis on data provided by Utah Department of Corrections

Figure C.4 also shows a projection on how large the population of 50-years-old male inmates, as a group, will be in 2017. From our estimation, it appears that inmates over 50 years of age will comprise over 20 percent of the total prison population. This trend could drive UDC medical costs even higher because of the increased medical needs associated with aging.

2. Shifts that Increase Clinical Services’ Responsibilities: Since 2008, many UDC functions have been shifted to DCS, although related funding has not always been transferred with the function. For example, Gunnison’s medical program (with expenses amounting to \$330,000) was merged with Draper’s Clinical Services program without commensurate funding. This merger could be one reason why DCS has required additional internal supplemental funding for the last four years.

3. Increased Cost of Medication: The cost of prescription drugs at UDC increased from \$391 to \$521 per inmate from 2008 to 2012.

4. Departmental Cost-of-Living Adjustments and Funding of the Career Ladder: UDC instituted a cost-of-living adjustment and pooled funds to finance the career ladder. These funds came from several places, including the DCS line item.

5. Special Medical Needs: In the last few years, the prison has had to pay large amounts of money for uncommon and special medical needs. For example, in 2011 and 2012, DCS covered the cost of bone marrow transplant procedures amounting to over \$1

million. In 2012, the department also responded to several cases of botulism among inmates, totaling over \$550,000. DCS physicians explain that although these occurrences are very rare, they were entirely unanticipated and have reportedly placed financial strain on the department. Figure C.5 shows the costs per unique medical emergency by fiscal year.

Figure C.5 DCS Has Responded to Unusual and Unanticipated Medical Emergencies in the Last Couple of Years. These procedures have put a great strain on the department, causing DCS to seek supplemental funding.

2011-2012 Bone Marrow Costs		2012 Botulism Costs	
Year	Total Cost	Year	Total Cost
FY11, FY12 *	\$475,342	FY12 **	\$550,350
FY12	\$562,282	Total Cost	\$550,350
Total Cost	\$1,037,624		

Source: OLAG analysis on data provided by Utah Department of Corrections

*This number represents the same inmate patient who received medical care in both fiscal years 2011 and 2012.

**This number represents several treated cases of botulism in fiscal year 2012.

The costs of emergency medical procedures shown in Figure C.5 total to nearly \$1.6 million. These medical needs did not show any form of DCS medical negligence, but they do indicate that medical costs can be volatile and fluid from year to year.

6. UDC Contracts with Medical Professionals to Fill Open Positions: UDC explained to us that it is very difficult to hire medical professionals to work at Utah’s correctional facilities. In part, this difficulty is due to the low, non-competitive hiring wage UDC offers. Because it is difficult under these conditions to hire full-time medical professionals, UDC hires contracted medical professionals to work at UDC at a higher hourly wage. For example, instead of offering a certified psychiatrist a full-time position at market rate, UDC will contract with a professional at a much higher rate. We realize that contracting with professionals saves UDC the costs of providing benefits, but we question whether it is good practice to pay a much higher hourly rate than to hire full-time staff. Figure C.6 shows what two contracted medical professionals were paid for working at UDC, compared to the high and low comparable market rate.

Figure C.6 DCS Contracts with Medical Professionals at the High End of the Market Rate. One alternative could be for UDC to raise the standards of the inter-departmental career ladder to attract medical personnel to work at UDC.

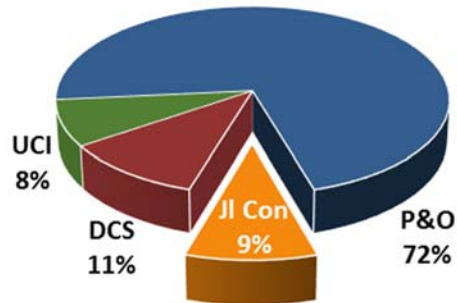
Clinical Services Contracted Professionals	
	Hourly Wage
UDC Contracted Psychiatrist	\$198
High Market Rate	\$118
Low Market Rate	\$73
UDC Contracted Pharmacist	
High Market Rate	\$66
Low Market Rate	\$37

Source: OLAG analysis on data provided by Utah Department of Corrections

Figure C.6 shows that UDC contracted with a psychiatrist at a much higher rate compared to market and a pharmacist at the high end of market rates. These costs may be averted if UDC were able to increase DCS salaries to attract full-time medical talent.

We believe the above data can be used in conjunction with Chapter IV to review how DCS can reduce medical costs. We further believe that UDC should focus attention on this area of increasing medical costs.

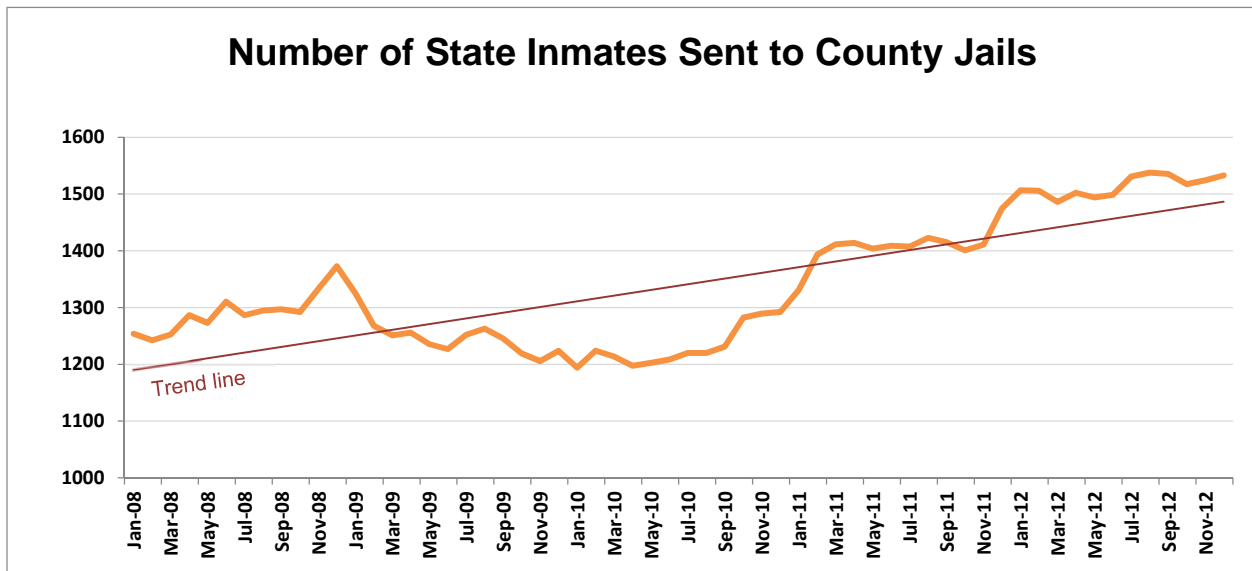
Appendix D Jail Contracting Line Item



This appendix provides additional information on historical trends for the jail contracting line item.

- Figure D.1 shows the trend of county jail bed use from 2008 to 2012
- Figure D.2 shows the calculated rates and approved rates for jail contracting

Figure D.1 UDC’s Use of County Jail Beds Continues to Increase from 2008 Levels.



Source: Utah Department of Corrections

The use of county jails to house state inmates has increased over the last five years (as evidenced by the red trend line above). The increase in UDC’s use of county jail space has largely been due to an overall increase in the number of state inmates as seen in report Figure 5.1. County jails have historically housed about 20 percent of state inmates.

Figure D.2 Calculated and Approved Jail Contracting Rates. This figure shows the rates approved for the jail contracting program.

Fiscal Year	State Daily Incarceration Rate ¹	Final State Daily Incarceration Rate	Legislatively Approved Jail Contracting Rate No Programming	Legislatively Approved Jail Contracting Rate With Programming
2009	\$72.85	\$62.29	\$45.00	N/A
2010	77.32	64.29	45.00	N/A
2011	80.35	64.29	45.00	N/A
2012	79.70	64.29	45.00	\$46.93
2013	79.44	64.18	46.85	50.70
2014	\$77.94	\$64.18	\$46.85	\$50.70

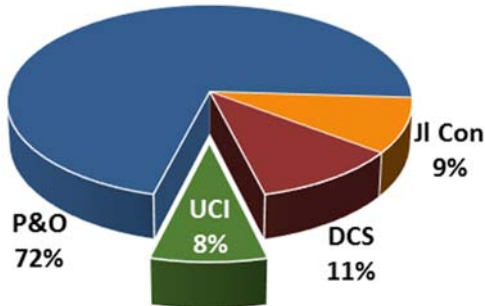
Source: Utah Department of Corrections

Note: program changes took effect in fiscal year 2009. For consistency, data before FY 2009 is not included in the figure.

1. The state daily incarceration rate includes capital depreciation. Accordingly, this number is higher than the prison cost per day, which was, for example, \$74.99 in fiscal year 2012.

Utah Code 64-13e-101 provides the framework to establish the rate paid to county jails for housing state inmates. First, the cost to house a state inmate in a state facility is calculated (see the figure above for the state daily incarceration rate). Then, a state daily incarceration rate is approved by the Legislature (see third column above for the final state daily incarceration rate). A rate is then calculated based on statutory language. For example, in fiscal year 2014, the Legislature set the jail contracting rate at 73 percent of the prison rate for a jail bed with no programming ($\$64.18 * .73 = \46.85) and 79 percent for a jail bed with programming ($\$64.18 * .79 = \50.70).

Appendix E Utah Correctional Industries Line Item



This appendix provides background information on Utah Correctional Industries (UCI).

- Figure E.1 shows a reduction in total UCI spending, number of FTEs, and average number of inmates in work programs since 2008
- Figure E.2 is the *Utah Code* provision that sets requirements on purchases of prison industry goods
- Figure E.3 provides a summary of the most expensive business units in 2012

Figure E.1 UCI Spending, FTEs, Number of Inmates, Funds Spent on Capital Investments, and Inmates Working in a UCI Work Program from 2008-2012. This figure also gives ratios of inmate laborers to FTEs and the inmate laborers to the total prison population.

UCI Historical Data 2008-2012					
	2008	2009	2010	2011	2012
Total UCI Expenditures	\$12,334,357	\$16,191,703	\$12,480,953	\$14,017,379	\$15,852,682
Total Capital Investments	\$152	\$1,934,224	\$580,495	\$0	\$146,928
Average Number of Inmates	5,077	5,067	5,226	5,373	5,274
Average Number of FTEs*	95	97	87	80	73
Average Number of Inmates in UCI Work Programs	727	473	430	537	685
Number of UDC Inmates to the number of inmates in UCI work programs	6.98	10.71	12.15	10.01	7.70
Number of Inmates in UCI work programs to number of UCI FTEs	7.65	4.88	4.94	6.71	9.38

Source: OLAG analysis on data provided by Utah Correctional Industries

*Most UCI staff are full-time employees, and many are certified officers. Rather than relying on UDC officers, UCI provides for all security while inmates work in UCI work programs.

According to Figure E.1, in 2008 and 2012, nearly one in seven inmates worked in a UCI program, while about one in ten worked in a UCI program in 2009 and 2011.

Government entities are not permitted to purchase from other sources items that UCI produces. *Utah Code* 63G-6a-804 (see Figure E.2) provides the parameters that require state departments to purchase from UCI, including what exclusions exist.

Figure E.2 *Utah Code* 63G-6a-804(3)(a) Indicates that State Departments, Agencies, and Institutions May Not Buy Goods from Other Sources if UCI Provides Such Goods.

(3) (a) A procurement unit that is not a political subdivision of the state may not purchase any goods or services provided by the Correctional Industries Division from any other source unless it has been determined in writing by the director of Correctional Industries and by the procurement officer or in the case of institutions of higher education, the institutional procurement officer, that purchase from the Correctional Industries Division is not feasible due to one of the following circumstances:

- (i) the good or service offered by the division does not meet the reasonable requirements of the procurement unit;*
- (ii) the good or service cannot be supplied within a reasonable time by the division; or*
- (iii) the cost of the good or service, including basic price, transportation costs, and other expenses of acquisition, is not competitive with the cost of procuring the item from another source.*

(b) In cases of disagreement under Subsection (3)(a):

- (i) the decision may be appealed to a board consisting of:*
 - (A) the director of the Department of Corrections;*
 - (B) the director of Administrative Services; and*
 - (C) a neutral third party agreed upon by the other two members of the board;*
- (ii) in the case of an institution of higher education of the state, the president of the institution, or the president's designee, shall make the final decision; or*
- (iii) in the case of any of the following entities, a person designated by the applicable rulemaking authority shall make the final decision:*
 - (A) a legislative procurement unit;*
 - (B) a judicial procurement unit; or*
 - (C) a public transit district.*

Figure E.2 includes Subsection 3(a), which says that a nonpolitical entity of the state cannot purchase goods or services from other sources without the written consent of the UCI director and the procurement officer. It then states reasons that state agencies need not purchase from UCI: a good from UCI does not meet the reasonable requirement for the need, the good cannot be supplied within a reasonable timeframe, or the good is not competitive in the market. Figure E.3 provides a summary of the most expensive UCI products and services in 2012.

Figure E.3 The Twelve Most Costly UCI Business Units from 2008 to 2012 Are Listed Below. These business units, although expensive to operate, generate a large percentage of UCI profits.

Function	Description
Advanced Modular*	Under the Prison Industry Enhancement Certification Program UCI provided inmate labor to private sector businesses and in exchange learned industry skill-sets. This program has recently been discontinued.
Asbestos Abatement	Inmates obtain certified asbestos removal training and provide asbestos removal services.
Case Goods	UCI manufactures furniture products for state agencies.
Commissary	Commissary processes orders from offenders for items the prison does not normally provide; such as food items, electronics, hygiene products, approved clothing, and arts and crafts. Commissary trains UCI workers in inventory management, warehousing, quality control, and other useful skills.
Construction	UCI Construction was originally established to facilitate both construction and remodeling at the prison, and now contracts with the Division of Facilities and Construction Management to work on other Utah state properties. The teams are trained and managed by expert construction supervisors.
Embroidery	Both the Embroidery and Embroidery PIE programs provide inmates the opportunities to learn how to design and manufacture logos for clothing and accessories.
Horse Gentling	In cooperation with the U.S. Bureau of Land Management, qualified UCI workers help train and care for wild mustangs and burros while these animals are in a short-term holding facility in Gunnison, Utah.
Milk Processing	UCI purchases raw milk, processes and packages it for consumption at UDC.
Plate Plant	The first internal UCI operation in Utah State prisons, the plate plant is where inmates are trained in manufacturing license plates for the entire State of Utah.
Print Shop	The UCI print shop offers a variety of services including typesetting, graphic design, offset printing, xerographic printing and embossing, and teaches inmates skills that are relevant to the printing industry.
REACH	REACH stands for the Rehabilitation through Affordably Constructed Housing, and provides carpenter training programs to offenders. The program helps to provide affordable housing to low-income families while also providing the offender with an Associate's Degree or trade school certification.
Sign Shop PIE**	The UCI Sign Shop produces and sells a variety of signs to State and Federal government agencies.

Source: OLAG analysis on data provided by Utah Correctional Industries

*Advanced Modular was discontinued by UCI management at the time of this audit.

**The Prison Industries Enhancement (PIE) certification program has two primary objectives as stated in UCIs Annual Report

1. Generate products and services that enable prisoners to make a contribution to society, help offset the cost of their incarceration, compensate crime victims, and support their families.

2. Reduce prison idleness, increase inmate job skills, and improve the prospects for successful inmate transition to the community on release.

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Agency Response

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State of Utah

GARY R. HERBERT
Governor

GREG BELL
Lieutenant Governor

Utah Department of Corrections

Executive Office

ROLLIN COOK
Executive Director

MIKE HADDON
Deputy Executive Director

LONDON STROMBERG
Deputy Executive Director

September 10, 2013

Rollin Cook, Executive Director
Utah Department of Corrections
14117 Minuteman Drive
Draper, Utah 84020

John Schaff, Legislative Auditor General
Office of the Legislative Auditor General
W315 State Capitol Complex, Salt Lake City, UT 84114

Dear Mr. Schaff,

Thank you for the professional work of your staff. As you know, these staff were housed at the Administration Building at the Department of Corrections for several months. I believe we worked well together, and the department was committed to provide requested information as quickly as possible. Your staff treated all of our staff with the greatest professional respect, and they were a pleasure to work with. The department also appreciates the opportunity to provide a response to the recent audit – “An In-depth Budget Review of the Utah Department of Corrections.” Overall, the department agrees with the discussion and findings of this audit, and our staff is already beginning to address many of the items discovered in the audit.

The department has always viewed audits as a tool to assist in finding areas where our agency – or any agency for that matter – can be improved. As you can certainly understand, when you are in the midst of day-to-day issues and operation, it can become difficult to review items such as those raised in this audit. It is also important to understand that many of the issues identified in the audit are the result of a prior administration. My new team and I are aggressively working to make significant change within the Department of Corrections.

The following are the specific responses on behalf of the department related to the findings and recommendations found through this audit. These responses are limited, to an extent, due to the brief time the department was provided to review and respond to this audit.

Executive Summary

The Utah Department of Corrections appreciates the opportunity for a regular, in-depth review of its budget. These occasions can serve a valuable purpose – not only for the state as it properly assesses money spent on government services, but also for this agency to evaluate and prioritize some of its initiatives based on input from an independent review. While we hope most Utahns never need to come under the custody of our Department of Corrections, we are committed to serving those who do. We are equally committed to ensuring we serve the offender population in an effective and efficient manner that closely scrutinizes the tax-funded programs and treatment efforts in place. Therefore, we treat this review with the appropriate magnitude.

Contained in our response below, you will largely find specific details pertaining to initiatives that are already underway to address areas where Corrections has room to improve. Notably, a new administration took the helm of Corrections in April 2013. With this change in leadership came an inherent shift in the way things are done at virtually every level – this, of course, means the department is in the midst of transition. While this implies many of the listed areas of concern were not necessarily brought to pass by the existing administration, it is important to note that the current administration is no less committed to addressing these points. We are deeply appreciative of this independent review, which provides a checklist of areas where we can effect positive change.

As we move forward, Corrections will strive to achieve a new level of transparency with not only the legislature, but also with the department's own staff, stakeholder organizations such as fellow government agencies or non-profit organizations, and with the general public whom we ultimately serve. This organization has rededicated itself to fiscal responsibility by closely assessing existing operations in food services, clinical services, Utah Correctional Industries, and programming – to name a few. We will strive to better track the achievements of programs in order to hold true to our focus on evidence-based practices.

However, we acknowledge there is also a balance to strike when it comes to scrutinizing expenses and status quo operations. We will seek to provide our staff the means needed to make their often-dangerous tasks safe and achievable. This is an agency that has – at face-value – emerged from the recession with carry-over funds on hand. This is not a sign of an area of government that has been overfunded, but rather it signifies extreme frugality during budgetary cuts – to a level, in fact, that trimming fat began to trim muscle and bone. This department has weathered the storm and has been fortunate enough to survive without serious issue or incident. However, now is the time to restore necessities and provide Utahns with great services at a minimal cost in an effective and efficient manner.

Chapter II: UDC Budget Reduction Options Not Fully Disclosed to Legislature

Recommendation 1

We recommend UDC be more transparent with the Legislature with regard to its budget and how it relates to the possibility of releasing inmates early.

Response

The department not only agrees with this recommendation, but is also engaged in efforts to make decisions transparent to staff, policy makers, and the general public. Certainly, beginning in late 2008, revenue shortfalls and the beginning of recession was a troubling time for state agencies and the legislative branch. Late in 2008, seeing the coming revenue shortfalls, the department initiated a hiring freeze. At the time, it appeared many agencies would have to face Reductions in Force (RIF) for many of its valuable staff in order to meet reduced budgets created by revenue shortfalls. The hiring freeze's intent was to minimize the need to enact extensive RIFs after the 2009 Legislative Session. At the same time, the department advised all staff to try to go without many needed items in order to help preserve staff positions. Department staff are essential to carry out its statutory requirements and meet its mission.

These were historic years nationally and within the state of Utah. As the audit accurately notes, during this period, the department, over a series of fiscal years, accumulated a pool of carry-forward funds. Much of these savings were related to the hiring freeze. The department commonly faces attrition of staff due to various reasons. When these positions were not refilled due to the hiring freeze, savings accumulated. Although the department has significant carry-forward balances, as I have spent time among staff and observed facilities I see an agency in crisis. Custody staff within the state's two prison systems is lacking to a point where staff and offender safety are at risk. Necessary equipment and tools needed to work effectively are either outdated or no longer useable. In sum, by squeezing department funding over the past several years, many areas of the department are in tatters. The penchant for delayed hiring and denied purchases extended beyond the end of the budgetary crisis. Funds have been saved, but it has been at the cost of over worked staff with outdated equipment.

As noted in the audit, during the difficult economic times, the department was transparent with the leaders of its appropriations subcommittee regarding its carry-over funds – to the point of offering them to assist other projects and agencies in need. In some cases, these carry-over funds were used to assist other agencies within the subcommittee. The funds were also used to address department one-time needs – such as shortfalls in its inmate medical budget. During the 2013 Legislative Session, approximately \$6.2 million in department needs – or building blocks – were funded, on-going, internally based upon anticipated on-going carry-over funds. This included \$2 million for inmate medical services, \$2 million to replace one-time funds being used to operate the Fortitude Treatment Center, and over \$2 million for needed substance abuse treatment for the offender population. During the same session, other savings from the department were used to assist other state justice entities meet their needs.

After the 2012 Legislative Session, a number of positions were eliminated in order to expand a career ladder to all department staff – with the exception of appointed staff. This completed the

initial career ladder – funded by the legislature – that focused on correctional officer staff. The current administration agrees the prior administration did not enact this expanded career ladder in a transparent fashion.

Although the department currently has carry-forward balances, these funds are needed to address many essential department operations. Of the carry-forward balances, \$10 million has been reserved to offset the cost for the potential construction of a 192-bed housing unit at the Gunnison site that is sorely needed. Additionally, with the department using \$6.2 million in ongoing funds – projected from the growing carry-over balances – it is unlikely the carry-over funds will continue to increase. Finally, the department is working with staff to identify and fund worn out equipment, essential safety related resources, staff working area improvements, and purchase of other items needed to perform the dangerous work in which they are engaged.

Chapter III Greater Efficiencies Can be Achieved in the Programs and Operations Budget

Recommendation 1

We recommend that the Utah Department of Corrections address the issue of inexperience in the management of Draper Culinary Services by adding experienced management or providing additional training.

Response

The department has sent the captains who supervise the culinary operation for training at the Association of Correctional Food Service Affiliates. This is a national organization established to meet the training needs of Correctional Food Services supervisors and staff. We have had two captains, to date, attend the training. The department is committed to continue to train our culinary supervisors to assist them in knowing and understanding the current national trends and to direct the culinary operation as effectively and efficiently as possible.

Recommendation 2

We recommend that Draper Culinary Services seek ways to obtain savings through better menu management and volume purchasing.

Response

It would be to the advantage of the department to have automated menu and cost control software. Several years ago, software was developed for this purpose; however, it proved to be difficult, at best, to use. In addition, the software did not interact with the State financial system (FINET) to allow for real time price changes, which is needed to complete a menu cost analysis. Today, menus are established on a 4-week cycle. The commodities and their proper amounts are purchased monthly allowing for bulk purchases based on space. Menus and pricing are reviewed, and if product pricing becomes expensive, a substitute is found in order to maintain lower per inmate meal cost.

Recommendation 3

We recommend that Draper Prison Culinary Services utilize the freezer owned and unused by the Utah Correctional Industries to store more volume purchases.

Response

Utah Correctional Industries has now offered the use of the freezers identified in this audit. There were some logistical issues that needed to be addressed to access the freezer space. The issues center on identifying appropriate product ownership within the freezers. At times, product from the Serving Time Café, operated by Correctional Industries, is stored in the freezer. Because the prison and Correctional Industries are separate line items, budgetary control requires assurance the product does not become mixed within the freezers. The Draper Prison Culinary Service is working with Correctional Industries to ensure product stored in the freezers maintains the integrity of ownership.

Recommendation 4

We recommend that Draper Prison Culinary Services follow the inmate caloric intake recommendations provided by Utah Department of Corrections Clinical Services.

Response

The department is currently recruiting for a Registered Dietitian that will, for the first time, be assigned to the Clinical Services Bureau. This change will directly tie culinary operations to the Clinical Services Bureau. The bureau will then direct the dietitian to utilize physician directed caloric and nutritional decisions. From there, prison culinary operations will work toward developing menus tied to recommendations from the dietitian.

Recommendation 5

We recommend that in accordance with Utah Code 63G-6a-408(5)(b), the Utah Department of Corrections should formally submit a second market purchase cost/benefit analysis to the State Purchasing and General Services Director asking for second market purchases to be reinstated. The Utah Department of Corrections should use the analysis contained in this audit to support the cost/benefit analysis.

Response

The department will utilize the cost analysis within this audit to support its request to State Purchasing for a reinstatement of second market buys. It had recently come to light the savings the Gunnison site was able to realize through second market buys. The department was beginning to use staff from Gunnison to train Draper staff about the process they are using to access and use second market buys. As noted in this audit, the State Division of Purchasing disallowed this practice. With the clarification now provided in the audit, the department will move forward to train Draper Prison Culinary Services on how to reduce food costs through second market buys. Once approved by State Purchasing, the department will also reinstate second market buys at its Gunnison prison site and initiate second market buys at the Draper prison site.

Chapter IV Clinical Services May Reduce Costs Through Better Contracting and Pharmacy Pricing

Recommendation 1

We recommend the Utah Department of Corrections (UDC) follow procurement best practices and competitively bid its offsite medical contract. If UDC does not receive an adequate number of bids, we recommend that UDC renegotiate its current contract, emphasizing the potential areas for cost savings identified in this audit.

Response

In the recent past, efforts were made to determine other health care provider's interest in providing the department with inmate health care services. At that time, neither IHC nor Morning Star exhibited interest in providing these services. The department acknowledges at that time no formal terms or details were provided to the potential vendors. Providing this detail may have generated more interest.

This recommendation is timely. An RFP will be pursued during the current fiscal year for provision of off-site inmate medical services. The current University of Utah Medical Center (UUMC) contract is in place until fiscal year end, and this will allow sufficient time to evaluate alternative proposals. If the department does not receive a sufficient number of bids on the RFP, it will pursue better terms in a new contract with UUMC, focusing specifically on cost saving areas identified in this audit.

Recommendation 2

We recommend that the Utah Department of Corrections (UDC) and the Division of State Purchasing and General Services work with the Minnesota Multistate Contracting Alliance for Pharmacy (MMCAP) to conduct a complete review of drug prices and utilization rates to determine where adjustments can be made to lower drug prices, especially on those drugs where UDC is paying significantly high prices.

Response

The department acknowledges that, on occasion, we pay more for some drugs when compared to other vendors. However, most often MMCAP is significantly cheaper. The department is encouraged by this audit report that MMCAP believes it can decrease pharmaceutical costs. The department, in collaboration with the Division of State Purchasing, will formally request MMCAP perform a comprehensive review of pharmaceuticals accessed by the department.

Recommendation 3

We recommend that the Utah Department of Corrections (UDC) review ways to automate its claims processing system. UDC should also review options of partnering with another department in the state that already owns and processes claims electronically.

Response

Currently, the department is working with the Department of Health to have offenders establish Medicaid eligibility and process UUMC billings. This relationship has been excellent, and the result has been successful. The process began in April 2013. At that time, the department

discussed expanding the automated billing process to cover all UDC claims. At that time, we mutually agreed to postpone this conversation until we had the Medicaid claims processed and paid with regularity. Today, we have reached the level of regularity and success sufficient to now engage the Department of Health regarding the processing and review of all UUMC billings. The department will meet with Department of Health and pursue this issue.

Chapter V Current Jail Contracting Costs Lack Sufficient Comparison

Recommendation 1

We recommend that, in the absence of a full audit, UDC and the county jails conduct an analysis to identify and agree on cost differences; alternatively, the Legislature could request a full audit of jail contracting.

Response

The department, in the absence of a full audit, will work with our county partners to reach a consensus on the type of cost comparison discussed in this audit. The department believes it is acknowledged generally that many costs (e.g. inmate medical, transportation etc.) are the responsibility of the department. Working with the counties to conduct an analysis that includes these costs would provide a more accurate comparison of state and county inmate costs.

Chapter VI UCI Needs Performance Measures

Recommendation 1

We recommend that the Utah Department of Corrections and Utah Correctional Industries collect necessary data to accurately measure the performance of inmate work programs.

Response

Although not moving as quickly as we may like, the department has initiated a process of evaluation of programs operated in order to determine effectiveness. This is an area that Utah Correctional Industries and the department's Planning and Research Bureau could collaborate to ensure appropriate measures are developed, and a system is in place to track the measures. As data is collected, the Planning and Research can evaluate the program to determine whether or not it is meeting its goals. If we find it is not doing so, the department is committed to working as a team to improve efforts in Correction Industries to achieve the desired outcomes.

UCI has two basic areas of performance that call for measurement, financial and positive outcomes of inmates involved. Historically, UCI has kept data on the financial side of the program, but overall data collection on how the program impacts offender outcomes has been lacking. UCI is currently working on ISO 9000 certification, and is scheduled have certification completed in the administration, furniture, and commissary in July of 2014. This certification will enhance the data collection for finance and the efficacy of the work programs. UCI will work with Planning and Research to develop appropriate metrics for these areas and work to expand measurement further as the measures mature.

Recommendation 2

We recommend that the Utah Department of Corrections and Utah Correctional Industries collect necessary data to measure the employment success of all inmates trained under UCI programs after they have been released from prison.

Response

The department's response reflects back to the response on Item #1. The department is committed to Correctional Industries and the Planning and Research Bureau collaborating to establish goals and metrics in order to determine the effectiveness of UCI programs. These metrics will include individual offenders' success in the community – both in terms of employment and parole violations.

UCI will also work with the Division of Programming to ensure that all necessary data is being coordinated and collected between the divisions. Also, any additional data points that may be necessary will be identified and collected.

The Department of Corrections is committed to continual improvement in its operations and management. Again, the department appreciates the cooperative work and professionalism of the Legislative Auditor General and his staff.

Sincerely,



Rollin Cook
Executive Director