EXECUTIVE SUMMARY
Department of Corrections Cost per Prisoner Calculation
Report No. 14-03, July 2014

Our audit of the Department of Corrections (DOC) cost per prisoner for fiscal year (FY) 2011 through FY 2013 revealed that:

(1) DOC's most recent cost per prisoner of $119 for FY 2011 is not accurately calculated.
  a. Costs could not be verified and appeared to be overstated; and
  b. DOC's average daily population for FY 2011 of 615, FY 2012 of 600, and FY 2013 of 662 could not be verified;

(2) DOC did not routinely calculate and monitor cost per prisoner for FY 2012 and FY 2013;

(3) Federal reimbursement rates have not been updated for over 11 years;

(4) DOC does not reconcile federal reimbursements and accordingly, billings of $299 thousand (K) for housing federal prisoners were not collected;

(5) DOC is unable to calculate the marginal cost per prisoner to aid in policy making decisions; and

(6) We could not determine DOC's average per diem rate for Guam's off-island prisoner as the only document available is for FY 2014, which we calculated a per diem of $86 to house 15 of Guam's off-island prisoners.

These conditions occurred because management did not place a priority on tracking cost per prisoner, used a flawed methodology in calculating their cost per prisoner, and has a weak accounting infrastructure. Specifically, DOC does not track their transactions or maintain a database relative to incarceration-specific costs, such as cost for meals, medical and dental care, clothing and rehabilitative services.

Without compiling and analyzing prisoner expenses to identify major cost drivers, DOC management would not be able to monitor expected results, keep operating costs in line, and justify the increase in federal reimbursement rates. This information is also essential in alerting management of waste and inefficiencies of resources and services provided to prisoners.

DOC Cost per Prisoner is Not Accurately Calculated

We found that DOC's reported cost per prisoner of $119 per day in FY 2011 was inaccurately calculated, for several reasons. First, we found a disparity between the DOC calculation of total annual operating expenditures and the data we received from Department of Administration (DOA). FY 2011 expenditures utilized by DOC totaled $25.6M, whereas data received from DOA totaled $23.9M, a 7% difference or $1.7M. DOC stated that their expenditure calculations included unfunded liabilities, however, DOC could not provide the details for OPA to verify the validity and accuracy of their amounts.

Further, DOC appears to the overstated its reported costs. This occurred because DOC included in its FY 2011 calculation expenditure of funds that should not have been included because they came from sources outside of DOC's appropriation. Accordingly, the reported $119 cost per prisoner per day includes some costs that were borne by federal grants and other sources at no cost to DOC.

Finally, we found that DOC used the wrong fiscal year prisoner population in their calculation. DOC used the FY 2012 average daily population of 600 prisoners rather than the FY 2011 average daily population of 615 prisoners based on the Daily Population Statistics Report provided by DOC. Due to the limited access our team was given to the NaviLine system, which is based on inputs of police blotters, we were unable to verify the actual prisoner population. We cross-checked the daily population against three separate reports provided by DOC and found significant variances among them: the Daily Population Statistics Report, the Management Information System Print-Out Report, and the Warden's Report. As all three reports are not reconciled, DOC is unable to ascertain an accurate average daily population when calculating its cost per prisoner.

Federal Reimbursement Rates Have Not Been Updated

DOC attempted to calculate its cost per prisoner in order to determine whether the federal government was underpaying them. We found that the per diem rates have not been updated for as long as 11 years. Specifically, the agreement with the U.S. Marshals Service was last updated in October 2002 with a per diem rate of $75 per prisoner day and the Immigration and Naturalization Service agreement was last updated in May 2001 with a detainee day rate of $50.01. Without maintaining an accounting system and financial records, DOC will not be able to substantiate any request to increase the federal per diem rates. In addition, we found $299K in billings that were not reimbursed or recorded within the DOA AS400 due to the lack of reconciliation between DOC and DOA and no running log tracking reimbursements received against claims.

Marginal Cost per Prisoner is an Important Measure for Policy Making Decisions

With discussions on deportation and other concerns surrounding Guam's criminal justice system, the only cost information available to policymakers for assessing impacts of policy changes was DOC's $119 calculation of average daily cost. However, when evaluating the impact of specific policy changes, *marginal cost* is a more appropriate measure. Using average cost (instead of marginal cost) overestimates the cost per prisoner because average cost includes fixed costs, such as administrative, utilities, and overhead costs that may not be affected by limited decreases or increases in the prisoner population. In contrast, marginal cost only includes those costs directly related to prisoners which change immediately as prisoner counts increase or decrease. Examples of marginal costs include costs for medical, dental, and food.

However, use of marginal costs for policy making would be most effective if it represented all aspects of the criminal justice system. Specifically, reliance on marginal costs based solely on those that fall within DOC's budget will not provide a clear picture of the total cost to tax payers. As such, the Legislature should enter into discussions with all key players in the island's criminal justice system to include the Attorney General's Office, Guam Police Department, and the Judiciary to determine whether the development of the marginal cost is desirable for appropriate benchmarking and decision-making.

DOC Marginal Cost to House Off-Island Guam Prisoners Could Not be Verified
We were unable to verify DOC's FY 2011 through FY 2013 costs to house prisoners off-island. We requested a copy of DOC agreements with off-island facilities or BOP. However, as of the date of this report, no agreements or invoices from fiscal years 2011 through 2013 were provided to verify off-island costs and per-diem rates. Based on a December 2013 invoice, DOC is paying from a low of $78 (in South Carolina, Arizona, and Oklahoma) to a high of $101 (in Hawaii) to house 15 off-island Guam prisoners resulting in an average per diem rate of $86. It should be noted that off-island per diem costs should be compared to DOC's *marginal* costs, not the total average cost. This is because off-island prisoner costs behave like marginal costs—when the prisoner is no longer housed at the off-island facility, all costs for that prisoner are eliminated. In contrast, fixed costs at Guam facilities continue to be incurred even if prisoner numbers drop.

Conclusion and Recommendations
DOC has an inadequate cost reporting system and weak accounting infrastructure that hinder them in calculating accurate cost per prisoner. As a result, they have insufficient data to allow them to measure their performance and they are unable to substantiate requests to increase the federal per diem rates. To address these issues, we recommend: 1) DOC assign a non-uniform staff, such as a management analyst or a related position, to develop incarceration cost information, maintain its database (by utilizing tools, such as Excel spreadsheets, QuickBooks, etc.), and to conduct proper data entry, periodic reconciliation, and maintenance of DOC's NaviLine; and 2) DOC management routinely review and monitor cost per prisoner, reimbursements from the Federal Government, and billings to house off-island prisoners and collect all overdue payments and accrued interest, if necessary. In addition, DOC should coordinate with DOA regarding the collectability of the $299K discrepancy.

On June 26, 2014, OPA met with DOC officials to discuss the audit report. DOC management concurred with the findings and recommendations and provided their official response on July 2, 2014.

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