

Letter Report

**Canteen Operations
in Adult Correctional
Institutions**

May 2007



Legislative Audit Bureau

22 E. Mifflin St., Ste. 500, Madison, Wisconsin 53703-4225 ■ (608) 266-2818

Fax: (608) 267-0410 ■ Web site: www.legis.state.wi.us/lab



STATE OF WISCONSIN
Legislative Audit Bureau

22 E. Mifflin St., Ste. 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410
Leg.Audit.Info@legis.wisconsin.gov

Janice Mueller
State Auditor

May 3, 2007

Senator Jim Sullivan and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Sullivan and Representative Jeskewitz:

As part of our ongoing audit responsibilities, we conducted a limited-scope review of pricing policies for canteens in each of the 20 adult correctional institutions administered by the Department of Corrections (DOC). Canteens operate as prison stores from which inmates may purchase packaged foods, cards, stamps, personal items, toiletries, and other items. Institution administrators have broad authority for canteen operations. For example, they choose whether an institution will operate its canteen directly or select a private vendor, as well as which items will be sold to inmates. Canteens are managed by state employees in 14 institutions and by contractors in the other 6.

DOC has established pricing policies that apply to both state-operated and contract canteens. These policies require items sold in the canteens to be priced approximately 10 percent above the price paid by the vendor. The mark-up now appears to be consistently applied, but we found that differences in prices for similar items were sometimes substantial and that these differences occurred in both state-operated and contract canteens.

In February 2003, an internal working group reported that consolidating canteen operations would likely result in reduced costs to DOC and inmates. We include a recommendation for DOC to reassess the cost-effectiveness of consolidating canteen operations, either through a private vendor or with state employees, and report to the Joint Legislative Audit Committee by October 1, 2007.

We appreciate the courtesy and cooperation extended to us by DOC staff during the course of our review.

Sincerely,

Janice Mueller
State Auditor

JM/KW/bm

Enclosure

CANTEEN OPERATIONS IN ADULT CORRECTIONAL INSTITUTIONS

Canteens operate as prison stores that provide inmates the opportunity to purchase items, such as packaged foods, cards, stamps, personal items, and toiletries. Section 301.27 (2), Wis. Stats., permits each correctional institution to establish a revolving fund—not exceeding \$100,000—to be used for activities related to inmate and employee education, recreation, and convenience. Revenues generated by canteen sales are deposited into this fund. Institution administrators approve items to be sold in the canteen and decide whether the institution or a private vendor will operate it.

We conducted a limited-scope review of canteen pricing policies for the 20 adult correctional institutions operated by the Department of Corrections (DOC). In conducting our review, we spoke with DOC officials and institution staff; reviewed statutes and administrative rules related to canteen operations; examined DOC's internal policies and procedures relating to revolving funds and canteen operations; reviewed financial statements for the revolving funds; and obtained order forms, cost reports, and policies and procedures associated with canteen operations from each of the adult correctional institutions.

As shown in Table 1, in September 2006, 14 state correctional institutions operated canteens with state staff and two private contractors operated canteens in the 6 other institutions. Both private contractors—Swanson Services Corporation and Stellar Services—are based in Wisconsin and were selected through the request-for-bid process.

Table 1

Canteen Operations in Adult Correctional Institutions
September 2006

	State-Operated	Swanson Services	Stellar Services
Chippewa Valley Correctional Treatment Facility	X		
Columbia Correctional Institution	X		
Dodge Correctional Institution	X		
Fox Lake Correctional Institution	X		
Green Bay Correctional Institution	X		
Jackson Correctional Institution	X		
Kettle Moraine Correctional Institution	X		
Milwaukee Secure Detention Facility		X	
New Lisbon Correctional Institution	X		
Oakhill Correctional Institution			X
Oshkosh Correctional Institution	X		
Prairie du Chien Correctional Institution			X
Racine Correctional Institution	X		
Racine Youthful Offender Correctional Facility		X	
Redgranite Correctional Institution	X		
Stanley Correctional Institution	X		
Taycheedah Correctional Institution	X		
Waupun Correctional Institution	X		
Wisconsin Correctional Center System		X	
Wisconsin Secure Program Facility			X

Institution administrators consider several factors in deciding whether the institution or a private vendor will operate a canteen, including the availability of space for canteen operations, staffing costs for state employees needed to operate the canteen, and the availability of interested contractors able to meet bid specifications. However, all institutions incur some staffing costs related to canteen operations. As shown in Table 2, the Division of Adult Institutions has allocated 7.3 full-time equivalent (FTE) permanent staff positions and 1.50 FTE limited-term employee (LTE) positions for state-operated canteens. It should be noted that DOC staffing documents do not show canteen staff allocations for Chippewa Valley, Jackson, and Redgranite correctional institutions, and at Oakhill Correctional Institution, where the canteen is currently operated under contract, 0.4 FTE permanent staff are also allocated for canteen operations. In addition, institutions may assign staff from other functional areas, such as correctional staff who oversee inmate canteen workers, to canteen operations.

Table 2

FTE Staff Allocated for State-Operated Canteens
October 2006

	Permanent	LTE
Columbia Correctional Institution	0.50	
Dodge Correctional Institution	0.40	
Fox Lake Correctional Institution	0.90	
Green Bay Correctional Institution	0.90	0.50
Kettle Moraine Correctional Institution	0.60	
New Lisbon Correctional Institution	0.40	
Oshkosh Correctional Institution	0.60	0.50
Racine Correctional Institution	0.90	
Stanley Correctional Institution	0.80	
Taycheedah Correctional Institution	0.30	
Waupun Correctional Institution	1.00	0.50
Total	7.30	1.50

Pricing Policies and Practices

Although each institution creates its own procedures for processing canteen orders, there are some common practices. Inmates may purchase items from the canteen either weekly or bi-weekly. They are restricted to a maximum purchase of \$37.50 per week or \$75.00 bi-weekly and may be limited from either purchasing or possessing specific quantities of items. There is no exchange of currency. All transactions are processed electronically: inmates' personal accounts are debited, and the institution's revolving fund is credited with each purchase.

At institutions with state-operated canteens, inmates submit order forms to staff, and the orders are filled by staff and inmates working for the canteens, which are typically located on the grounds of the institution. Deliveries to inmates are made on a specific weekly schedule. Institution employees manage all aspects of the canteens, including ordering canteen inventory, distributing canteen orders, and setting prices for goods sold in the canteen.

At institutions where canteens are operated by private vendors, inmates complete electronic order forms, which are submitted directly to the vendor by institution staff. The orders are filled off site and are typically delivered to the institution on a specific weekly schedule.

Items sold in the canteens are purchased from various sources, including distributors who deliver products directly to the institutions, and wholesalers who serve institutional customers. DOC policies require goods sold in canteens to be priced approximately 10 percent above the price paid by the vendor, and sales tax is to be applied after the 10 percent markup has been included. DOC revised the canteen pricing policy, effective May 1, 2006, to clarify that the 10 percent markup applies to both state-operated and privately operated canteens.

We found that the pricing of items in state-operated canteens generally conforms to DOC policies. Institution staff use two reports when pricing canteen items:

- a stock detail report, which shows the average price paid by the institution since it began purchasing the item; and
- an ad hoc report, which shows the price most recently paid by the institution for the item and costs to inmates once the 10 percent markup is included.

The ad hoc report is the primary basis for establishing canteen prices, but staff may adjust prices in some circumstances, such as to avoid dramatic changes in the costs to inmates when the institution's price changes unexpectedly. DOC policies require the prices inmates are charged at each institution be reviewed at least twice each year, and staff indicated this review occurs. Staff also indicated they review prices when order forms are reprinted, which is typically every three to four months.

Because the stock detail report represents the historical average price paid by an institution for each item, prices on this report may differ significantly from those currently charged to inmates if items have been available for several years. Consequently, inmates who use this report to assess the accuracy and fairness of current prices may draw erroneous conclusions about compliance with DOC pricing policies.

We reviewed the prices of several canteen items commonly purchased by inmates and found that contracted canteen operators' average prices for some food items were significantly higher than those charged by state-operated canteens, as shown in Table 3. For example, an 18-ounce jar of peanut butter costs \$0.97 more. The difference between maximum and minimum prices charged for similar items among institutions, regardless of whether canteens are operated by contractors or state employees, was also sometimes substantial.

Table 3

Prices of Selected Items at Correctional Institution Canteens
September 2006

Product	Contracted Canteen Prices			State-Operated Canteen Prices			Difference in Average Prices
	Minimum	Maximum	Average	Minimum	Maximum	Average	
Peanut Butter (18 oz.)	\$2.39	\$3.47	\$2.68	\$1.30	\$1.84	\$1.71	\$0.97
Instant Noodles	0.21	0.24	0.22	0.13	0.40	0.19	0.03
Snickers® Bar	0.59	0.62	0.58	0.44	0.51	0.47	0.09
Fingernail Clipper	0.18	0.58	0.47	0.24	0.73	0.45	(0.02)
Toothbrush	0.34	0.47	0.41	0.32	1.56	0.51	(0.10)
Tuna (3 oz.)	1.12	2.02	1.59	---	---	---	---
Tuna (4 oz)	---	---	---	0.98	1.07	1.02	---

Price variations likely result from differences in the brands and types of items canteens carry, the extent to which items are purchased in bulk to lower costs, and the cost of shipping. Institution staff indicated they have limited opportunities to negotiate prices with wholesalers or distributors because individual canteen operations are not typically large enough to generate cost savings through volume purchases.

Efficiency of Canteen Operations

Canteen operations are highly decentralized. While no central office oversight is exercised over operating decisions, central office oversight of each institution's revolving fund is limited. Institutions may collaborate to provide canteen services, which staff indicate can reduce the time necessary to complete the contracting process and reduce costs by increasing the number of items purchased under one contract.

Of the six institutions currently contracting for canteen services:

- Oakhill, Prairie du Chien, and Wisconsin Secure Program Facility currently operate on month-to-month extensions of a shared contract with Stellar Services that extended from March 2003 to February 2006.

- Milwaukee Secure Detention Facility and the Wisconsin Correctional Center System contract with Swanson Services on a shared bid that extends from October 2004 to September 2007. According to institution staff, DOC central office staff will manage the next bidding process for the institutions.
- Racine Youthful Offender Correctional Facility currently operates on month-to-month extensions of a contract with Swanson Services that extended from July 2001 to June 2004.

We reviewed the level of sales in adult institutions to help assess the potential statewide contract value to bidders. As shown in Table 4, sales in Fiscal Year 2005-06 were \$12.3 million.

Table 4

Canteen Sales in Adult Correctional Institutions
Fiscal Year 2005-06

	Canteen Sales
Chippewa Valley Correctional Treatment Facility ¹	
Columbia Correctional Institution	\$ 414,800
Dodge Correctional Institution	635,900
Fox Lake Correctional Institution	898,000
Green Bay Correctional Institution	527,800
Jackson Correctional Institution	570,700
Kettle Moraine Correctional Institution	654,500
Milwaukee Secure Detention Facility	478,300
New Lisbon Correctional Institution	499,200
Oakhill Correctional Institution	408,300
Oshkosh Correctional Institution	1,246,700
Prairie du Chien Correctional Institution	228,600
Racine Correctional Institution	978,500
Racine Youthful Offender Correctional Facility	197,000
Redgranite Correctional Institution	624,900
Stanley Correctional Institution ¹	1,058,400
Taycheedah Correctional Institution	984,500
Waupun Correctional Institution	695,200
Wisconsin Correctional Center System	1,178,300
Wisconsin Secure Program Facility	52,300
Total	\$12,331,900

¹ Chippewa Valley Correctional Treatment Facility and Stanley Correctional Institution share management responsibility for their canteen operations.

Section 301.27(2), Wis. Stats., establishes a \$100,000 maximum for the revolving funds used to operate the canteens, and DOC policies have been established to ensure proper accounting for the revolving funds. We reviewed the cash balances in the revolving funds on June 30, 2006, as shown in the appendix.

In the past, DOC has considered consolidating canteen operations. A report completed by an internal work group in February 2003 concluded that centralizing canteen operations would likely result in reduced costs to both DOC and inmates, in part by reducing the time staff spend

managing canteens. The report also noted that initial funding to centralize canteen operations would be required to plan and implement the system. The source of funding was not identified, but change would require the cooperation of each adult institution.

To limit future costs, centralization of canteen operations in correctional institutions could build upon the data maintained in the institutions' stock detail and ad hoc reports; maintain institutional limits on allowable purchases; and help lower costs through greater volume purchasing, uniform pricing, and reducing the amount of staff time spent on canteen operations. Given that canteens' contractual services are provided on a month-to-month basis, revisiting the issue of consolidation is timely.

Recommendation

We recommend the Department of Corrections:

- *determine whether consolidating canteen operations, either through a private vendor or with state employees could reduce costs; and*
- *report to the Joint Legislative Audit Committee by October 1, 2007, on potential cost reductions resulting from consolidation of canteen operations, as well as expected planning and implementation costs and potential funding sources.*

Appendix

Revolving Funds' Cash Balances
June 30, 2006

	Cash Balance
Chippewa Valley Correctional Treatment Facility ¹	
Columbia Correctional Institution	\$ 21,140
Dodge Correctional Institution	52,376
Fox Lake Correctional Institution	23,111
Green Bay Correctional Institution	44,289
Jackson Correctional Institution ²	123,995
Kettle Moraine Correctional Institution	34,016
Milwaukee Secure Detention Facility	16,726
New Lisbon Correctional Institution	11,732
Oakhill Correctional Institution	34,835
Oshkosh Correctional Institution	65,556
Prairie du Chien Correctional Institution	7,759
Racine Correctional Institution	75,619
Racine Youthful Offender Correctional Facility	9,649
Redgranite Correctional Institution	71,319
Stanley Correctional Institution ¹	85,764
Taycheedah Correctional Institution ³	146,901
Waupun Correctional Institution	8,430
Wisconsin Correctional Center System ³	537,567
Wisconsin Secure Program Facility	12,576

¹ Chippewa Valley Correctional Treatment Facility and Stanley Correctional Institution share management responsibility for their canteen operations.

² The canteen fund balance at Jackson Correctional Institution exceeded the statutory balance of \$100,000 because of a delay in the delivery of \$60,000 ice machines authorized for purchase from the canteen fund.

³ Both Taycheedah Correctional Institution and the Wisconsin Correctional Center System operate multiple canteen sites.
