

## Special Project Report to City of Tulsa Mayor and Council Regarding Jail Per Diem Calculation

### **Project Scope:**

Mayor Bartlett requested the City Auditor to review work done by MGT America in their calculation of an inmate per diem rate for Tulsa County Jail. A review of MGT's work indicated their team had relied on documentation provided by the Tulsa County Sheriff's Office. MGT's project scope did not include procedures to evaluate the data. The City Auditor recommended additional work be done to determine the validity and accuracy of the data used in the calculation.

The City Auditor participated with a task force created to hire a CPA firm to review data validity and accuracy. BKD, LLP was awarded the bid, and the task force monitored BKD's work.

### **City Auditor Observations:**

#### **Oversight information provided to the Tulsa County Criminal Justice Authority is insufficient.**

Oversight of the expenditures of the Tulsa County Jail is a duty of the public trust created by the *Amended and Restated Declaration of Trust of Tulsa County Criminal Justice Authority*. Article III (a) states the Trustees are to, on behalf of the Beneficiaries, "administer funds for the purposes of acquiring a site for, erecting, furnishing, equipping, operating, maintaining, remodeling and repairing a county jail and/or other detention facilities ..."

Currently, the Trustees receive the jail sales tax revenue and then transfer it to the Jail Operations Fund. The Tulsa County Sheriff's Office controls the transactions in this fund. The FY15 budget for transfers to the Jail Operations Fund is \$29 million. Each month one-twelfth of this amount is transferred to the Jail Operations Fund.

The Sheriff submits all claims for jail operations expenses, except court guards and court services programs, to the Board of County Commissioners. **Thus, TCCJA Trustees never see the specific claims and payments for jail operations spent by the Sheriff using the Jail Operations Fund.**

#### **The Tulsa County accounting system does not provide complete and accurate costs.**

The Tulsa County Fiscal Agent stated in meetings held with the task force the accounting system does not provide complete and accurate cost accounting for jail costs. He stated this is because a cost accounting system would be expensive to support, and he does not have the necessary staffing and other resources.

The Tulsa County Fiscal Agent also stated he has no discretion on how funds in the Jail Operations Fund are expended. The Sheriff's Office is responsible for approving transactions and recording the activity in the Jail Operations Fund. **Risk of inappropriate expenditures is increased when authorizing and recording activities are not properly separated.**

### **The validity of some transactions charged to jail operations is questionable.**

**Vehicles** - The detailed information provided by BKD in their report, entitled *Report on Procedures performed – Jail Per Diem Rate Procedures*, indicates on page 9 funds were spent from the Jail Operations Fund to purchase six vehicles in FY13, which cost \$177,916. These purchases appear to be inappropriately charged as jail costs since detention personnel do not drive automobiles. BKD commented, "Per inquiry of county personnel, all officers who are ranked as sergeant and above are assigned a vehicle because their duties and assignments could change. However, the use of the vehicles should be consistent with their individual assignment."

**Depreciation expense** - BKD also commented on depreciation expense, which is over \$2 million per year, "An item to consider further is to determine whether depreciation expense of the David L. Moss correctional facility be allocated as an annual operating cost of the jail and included in the calculation of a per diem rate. The construction of the facility was funded by a sales tax that is no longer being collected. Therefore, an expense is being allocated without a direct funding source being collected to offset the expense." When Mayor Bartlett asked BKD staff if including depreciation in the per diem calculation would constitute double-charging taxpayers, BKD confirmed it would.

**Additional costs** – BKD did not recalculate or test for accuracy \$5,402,185 of "Additional Costs" in MGT's per diem calculation. BKD's report gives this explanation, "Amounts for the County Central Services, Workers' Compensation and Unfunded Liability line items within the Additional Cost section of Exhibit A of the MGT America report was not recalculated and tested for accuracy by BKD because MGT America calculated them for use in their report based on information provided by the Sheriff's Department. These items are indirect expense allocations and will not directly agree to the general ledger system." The effect of the unverified costs on the per diem cost is analyzed at Exhibit A.

**Court services and guards** - Jail sales taxes are used to pay for court services and court guards, which were budgeted at \$5.9 million in FY15. Some of these costs would be appropriate jail operating costs, such as the transport and oversight of inmates to and from court proceedings. However, the costs are not analyzed to determine which costs are appropriate jail expenses and which are not.

**Legal fees, travel and training** - Other questionable expenses include legal fees, travel and training. Payments are made from the Jail Operations Fund for legal fees related to the defense of Tulsa County Sheriff's Office staff. There are also charges for travel and training that are not directly related to jail operations. **The existence of questionable transactions indicates more oversight at the transaction level is needed.**

### **The City of Tulsa pays a negotiated inmate per diem.**

The City of Tulsa has negotiated a rate that is currently the same rate paid by U.S. Marshals Service of \$59 per inmate per day. Since Tulsa County does not use a cost accounting system, it is not possible to determine whether the negotiated rate is higher or lower than the actual cost of housing a municipal prisoner. The MGT per diem calculation was a one-time effort.

BKD comments in their report, "We recommend TCCJA consider having an annual or biannual cost allocation study performed and adjust the per diem rate accordingly. **Expenses of the jail and cost allocations should be determined on a regular basis to account for changes in operational cost and would result in more reliable, accurate estimates.**"

### ***Conclusion:***

The City of Tulsa mayor has a permanent seat as a Trustee of the Tulsa County Criminal Justice Authority. Mayor Bartlett has put forth significant effort to bring the issues in this report to the Trustees' attention. Following are key improvements that are needed. The City Auditor has requested Mayor Bartlett bring this report to the Trustees' attention.

**Oversight** – The Trustees need to be provided information with transaction level detail to be able to carry out their fiduciary duty. It may be necessary for TCCJA to hire staff, reporting to the Authority, with the skill to review and identify significant matters for their consideration.

**Accounting** – The best way to determine per diem rates is to use a cost accounting system with defined rules that have been approved by TCCJA. The rules should specifically address items that are not clearly and directly related to jail operations, such as vehicles, weapons, depreciation, legal fees, travel and training. Complete and reliable information about costs will enable both the TCCJA and the Sheriff's Office to make better operating decisions.

**Outsourcing** – TCCJA has the authority to contract with a private company to operate the jail. Periodically evaluating whether jail operations would be more efficiently and effectively carried out by a contractor will provide insight to the Trustees.

## Exhibit A – Effect of Unverified Costs on Daily Rate

### MGT America calculated daily rate

MGT Jail Cost Total (from Exhibit C)	\$40,180,000
Available Beds	1714
Annual Bed Cost (Total cost/1714)	\$23,442
Daily Rate (Annual Bed Cost/365)	<b>\$64.23</b>

### Costs Not Verified by BKD\*

Depreciation Expense	\$2,205,532
Additional Costs	<u>\$5,402,185</u>
Total Unverified Costs	<b><u>\$7,607,717</u></b>

### New Daily Rate Calculation

MGT Jail Cost Total	\$40,180,000
Less: Total Unverified Costs	\$7,607,717
New Jail Cost Total	\$32,572,283
Annual Bed Cost	\$19,004
Daily Rate	<b>\$52.06</b>

\*Source of Costs Not Verified by BKD:

Question asked by the City of Tulsa:

What was the total of the “additional costs” in MGT’s Exhibit A that BKD did not recalculate or test for accuracy?

BKD’s response:

The total dollar amount of additional costs that were not recalculated was \$5,402,185 (All items except for Jail Deputies Equipment and Training Center costs could not be recalculated). The depreciation amounts totaling \$2,205,532 could not be recalculated or tested for accuracy because we were informed that these amounts were solely calculated by MGT America. Certain procedures to test the accuracy of items were performed on the County Central Services, Worker’s Compensation and Unfunded Liability amounts totaling \$3,196,653; however, as stated above we could not recalculate the amounts used in the MGT America Report as the allocation of the amounts were determined solely by MGT America.