CITY AUDITOR'S OFFICE

AUDIT OF
DEPARTMENT OF PUBLIC SAFETY
DETENTION SERVICES

INMATE COMMISSARY CONTRACT

REPORT PS010-2425-02

September 19, 2024

EXECUTIVE SUMMARY

Why this Audit is Important

The city of Las Vegas (City) has a contract with Keefe Commissary Network, LLC (vendor) to provide commissary services to inmates at the City's Department of Public Safety (Public Safety) jail. Through these services, inmates can purchase food, hygiene products, over-the-counter medication, and clothing using a self-serve kiosk within the jail. This contract is overseen and administered by Public Safety's Detention Services Division and Administrative Section staff.

This audit reviewed the City's and vendor's compliance with the terms of the inmate commissary contract and assessed the adequacy of the operational and administrative controls over the inmate commissary services.

Key Audit Results

- **Service Delivery**: The vendor supplies inmates' commissary items weekly, including food and other related products. The audit confirmed that the vendor consistently meets this requirement.

- **Monthly Reporting and Payments**: The vendor submits monthly reports detailing all commissary items purchased by the inmates. The vendor receives payment from the City's inmate trust account. The audit verified the accuracy and timeliness of these reports and payments.

- **Service Fees**: The City receives a 32% service fee on adjusted gross sales (gross sales minus sales of non-commissioned items). The audit confirmed the accuracy of the calculation and payment of this service fee to the City.

- **Signing Bonus Payment:** The vendor paid the City a one-time signing bonus of $20,000 within 30 days of signing the contract. The audit confirmed the receipt of this payment.

- **Contract Monitoring and Price Review:** Public Safety lacks documented procedures for monitoring contract compliance and reviewing and approving item prices. The audit found that decisions regarding price changes are made ad hoc without established criteria, which may lead to inconsistencies in evaluating contract performance.

- **Policy & Procedures**: Public Safety's current policy for inmate commissary services (COR 6391, revised 01/2005) is outdated and does not reflect current operations. In addition, the Administrative Services Office desk procedures are incomplete. The audit highlighted the need to update this policy and the desk procedures to align with current practices.

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BACKGROUND

The city of Las Vegas (City) entered into its current contract with Keefe Commissary Network, LLC (vendor) on September 20, 2017, to provide commissary services to inmates at the City's Department of Public Safety (Public Safety) jail. Through these services, inmates can purchase food, hygiene products, over-the-counter medications, and clothing using a self-serve kiosk within the jail. The vendor installs and maintains the kiosk, manages inmate orders, and processes the related financial transactions. This contract is overseen and administered by Public Safety's Detention Services Division and Administrative Section staff.

This contract is exempt from the competitive bidding process per Nevada Revised Statute (NRS) 332.115.1. The Public Safety Director is the contract-approving authority in consultation with the City's Purchasing Division and the City Attorney's Office. Considering this exemption and approval process, it is important that Public Safety staff properly manage this contract to ensure compliance with the contract terms, financial integrity, fair pricing for inmates, and proper oversight of the City's interests.

As of June 28, 2024, the vendor provides services for an average daily population of 485 inmates (337 sentenced / 148 non-sentenced). Each week, the vendor receives an average of 94 orders totaling $3,312. For the period from January through June 2024, there were $156,342 in total commissionable sales orders.

AUDIT TEAM

Bryan Smith, Acting City Auditor
Joseph Throneberry, Senior Forensic Auditor
James Burnett, Senior Internal Auditor

OBJECTIVES

The objectives of this audit were to:

1. Assess compliance with the contract terms by the City and the vendor.
2. Assess the adequacy of the operational and administrative controls over the inmate commissary services.

SCOPE AND METHODOLOGY

The scope of this audit was limited to the management controls within the context of the audit objectives. Our audit included a review of the City's and vendor's compliance with the provisions within the current contract dated September 20, 2017. Our audit also included testing a sample of vendor report submissions and transactions between January 1, 2023, and February 29, 2024. We did not complete a financial audit of the City's inmate trust account (aka inmate commissary fund).

Our audit methodology included:

- Research of contract provisions,
- Interviews with city employees,
- Observations of operations at Public Safety's Administrative Services Office & jail; and,
- Review of available data and reports.

We conducted this performance audit in accordance with generally accepted government auditing standards, except for the requirement for an external peer review every three years. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The last fieldwork date of this audit was August 21, 2024.

RESULTS

The results of our audit fieldwork for our two audit objectives are discussed below:

Objective #1: Assess compliance with the contract terms by the City and the vendor.

Our office reviewed key contractual elements of the vendor contract, including the scope of services, financial provisions, product selection, and pricing, as well as the contract term and renewal. A summary of our work related to these elements is found below:

Scope of Services:

The vendor is contracted to supply commissary items, which include food and other related products, to inmates on an as-needed basis but at least weekly.

> **Conclusion:** Based on our testing, the vendor complies with these terms. Public Safety inmates order items via a kiosk at the jail via their inmate account with the vendor. Items are received by Public Safety weekly on Thursdays, stored and sorted, and distributed to the inmates in their housing units on Sunday of each week.

The vendor will install, maintain, and provide the necessary hardware for ordering and delivering commissary items. Public Safety will provide the required power and network connectivity for any kiosks.

> **Conclusion:** The City and the vendor comply with these terms as there are kiosks for ordering items in each inmate housing unit and two administrative kiosks for cash processing at Public Safety's Administrative Services Office.

The vendor must maintain all necessary licenses and insurance and indemnify the City against liabilities arising from their performance.

Conclusion: Per review of related documents, the vendor complies with these requirements.

Financial Provisions:

The vendor must submit a monthly report of all commissary items purchased to the City. Payments for these items are to be made from the inmate trust account. The vendor is to facilitate family deposits to inmate trust accounts via a website, a toll-free number, and a deposit kiosk installed at the facility. All deposits and ACH transfers are to be guaranteed to the designated city bank account nightly at no cost to the City.

Conclusion: We randomly chose one weekly commissary order per month from January 2023 through February 2024 and reviewed the vendor's invoice and supporting reports provided to the City for those weeks. We recalculated the invoice to verify that the vendor was appropriately charging the City for inmate commissary purchases. Additionally, we confirmed the City's payments to the vendor by reference to the City's inmate trust account general ledger. We also confirmed that inmate funds deposited by the Administrative Services Office are posted to the inmate accounts being maintained by the vendor. While a sample of individual transactions was tested, we did not perform a financial audit of the City's inmate trust account.

Based on the work performed, we found that the vendor is submitting the required commissary purchase reports to the City and maintaining detailed records of inmate accounts. In addition, payments to the vendor for these purchases are appropriately being made from the City's inmate trust account. The vendor's software prevents purchases from exceeding the available balance within an inmate's account.

The City will receive a service fee of 32% of adjusted gross sales (gross sales minus sales of noncommissioned items), which will be applied as a credit to vendor orders.

Conclusion: In conjunction with the sample testing previously discussed, we confirmed that the vendor calculates accurately and that the City appropriately receives the 32% service fee.

The vendor will pay the City a one-time signing bonus of $20,000 within 30 days of signing the contract.

Conclusion: We confirmed the receipt of this payment for the current contract term identified within the scope of this audit.

Product Selection and Pricing:

The City and the vendor will mutually agree on product selection and pricing. The menu will be reviewed and adjusted as needed, but no less than annually, with any changes requiring the City's approval.

> **Conclusion:** The process for reviewing and approving/rejecting item prices and price changes was ad-hoc and not documented in any formal Public Safety procedure. **See Finding #1**

Contract Term and Renewal:

The current contract's initial term is five years, with automatic renewals for successive one-year terms unless either party provides 90 days written notice of their intent not to renew. The contract includes provisions for termination for convenience or default. The City may terminate the contract with 30 days written notice.

> **Conclusion:** Public Safety is in the process of renewing and negotiating contract terms for this vendor and anticipates a finalization date in late 2024. Negotiations between the City and the vendor may impact the terms and conditions agreed upon renewal.

Objective 2: Assess the adequacy of the operational and administrative controls over the inmate commissary services.

Controls over Commissary Operations at Jail:

We visited the City's jail and observed a kiosk used by inmates and the storage area for items delivered by the vendor to the jail. Items ordered by the inmates are delivered each Thursday and stored in a secure location. On Sundays, under the supervision of Public Safety Detention staff, items are verified against the packing slip and marked if received. The items are sorted by inmate and delivered to them in their respective housing unit.

> **Conclusion:** We determined that controls are in place to properly secure and distribute commissary items upon their receipt at the jail. However, we determined that Public Safety Policy COR 6391(revised 01/2005), "Inmate Canteen Accounts and Audit of Accounts," is outdated and does not reflect current inmate commissary operations. **See Finding #2.**

Controls at Administrative Services Office:

We met with Administrative Services Office staff, obtained an understanding of, and observed the procedures they follow in administering the inmate commissary contract. We also reviewed the completeness of their documented procedures for this process.

Conclusion: Public Safety's Administrative Services Office desk procedures for administering the inmate commissary contract are incomplete. **See Finding #2.**

FINDINGS & RECOMMENDATIONS

1. Improvements Needed in Contract Compliance Monitoring

While Public Safety staff maintain regular contact with the vendor and respond to questions and requests as needed, no documented procedures outline management's expectations for their staff in monitoring the individual provisions within this contract.

At the beginning of the current contract term, the City and the vendor agreed upon the prices to be charged to inmates for the commissary items. Subsequent price changes have been sent by the vendor via email to Public Safety personnel requesting their approval or rejection of the changes. We found no established criteria or documented procedures for Public Safety personnel to follow in determining whether to accept or reject price changes. In addition, data surrounding such requests is kept ad-hoc with no centralized tracking.

Recommendations

1.1 Public Safety management should document and implement procedures for monitoring compliance with the provisions within this contract, tracking required deliverables, and maintaining a contract file.

1.2 Public Safety management should document and implement procedures for reviewing and approving the prices of commissary items sold by the vendor to inmates in Public Safety custody. Particular attention should be given to increases significantly above local market prices for similar and like items, which should be documented upon rejection and reviewed with the vendor.

2. Improvements Needed in Policies & Procedures

Public Safety has policy COR 6391 (revised 01/2005), "Inmate Canteen Accounts and Audits of Accounts," which discusses inmate commissary operations. This policy is outdated and no longer reflects current inmate commissary operations.

Public Safety's Administrative Services Office desk procedures, which should fully outline their roles and responsibilities related to the inmate commissary contract, are incomplete.

Without current and complete documented policies and procedures:

- There is a lack of guidelines for what is expected of staff in performing tasks related to the inmate commissary contract.

- There is an increased risk of inconsistencies in how employees are trained and procedures performed.
- There is an increased risk of knowledge loss with staff turnover.

Recommendations

2.1 Public Safety management should update their documented policies to reflect current inmate commissary operations.

2.2 Public Safety management should create more complete documented desk procedures outlining the roles and responsibilities of the Administrative Services Office staff in administering the inmate commissary contract.

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MANAGEMENT RESPONSE

1. Improvements Needed in Contract Compliance Monitoring

1.1 Public Safety management should document and implement procedures for monitoring compliance with the provisions within this contract, tracking required deliverables, and maintaining a contract file.

Management Action Plan: Public Safety management will document and implement procedures to monitor compliance with the provisions of the contract, track required deliverables, and maintain a centralized contract file. While the vendor is highly responsive with no sustained issues, the following steps will be taken: adding the contract renewal date to the business office calendar with a contract compliance form, monitoring the sign-on bonus and 32% commission annually, completing a Purchasing scorecard annually, and creating an internal contract compliance form for annual review. A centralized folder will be established to document any non-compliance issues. If there is any non-compliance issues the DPS Business Office and Finance/Purchasing will be notified.

Estimated Date of Completion: 60 days from contract execution date

1.2 Public Safety management should document and implement procedures for reviewing and approving the prices of commissary items sold by the vendor to inmates in Public Safety custody. Particular attention should be given to increases significantly above local market prices for similar and like items, which should be documented upon rejection and reviewed with the vendor.

Management Action Plan: The contract language is being negotiated to address the growing public concern over controlling excessive commissary pricing. This includes a new provision requiring the provider to perform an annual price audit, comparing their product prices to comparable retail values in the community. If prices fall below these comparable values, the provider may request an adjustment. All price changes must be approved by detention lieutenants in coordination with the business office, which will spot-check the audit for accuracy and notify Finance/Purchasing of the results. Keefe will provide supplemental reporting comparing prices to comparable retail values in the community. Additionally, a provision will be added allowing the City to reject pricing and enter negotiations; if an agreement cannot be reached, the City may source products through other means. All documentation will be added to a centralized file.

Estimated Date of Completion: 60 days from contract execution date

2. Improvements Needed in Policies & Procedures

2.1 Public Safety management should update their documented policies to reflect current inmate commissary operations.

Management Action Plan: We concur with the City Auditor that ensuring our policies and procedures are up-to-date is crucial. We are working with Lexipol to standardize and update all policies. We will collaborate with the jail to align our procedures with current Keefe operations, updating the policy last revised in 2005. DPS will develop a procedure that reflects the current commissary practices under the new Keefe contract. As part of this update, Public Safety policy COR 6391, "Inmate Canteen Accounts and Audits of Accounts" (revised 01/2005), will be archived.

Estimated Date of Completion: December 2024

2.2 Public Safety management should create more complete documented desk procedures outlining the roles and responsibilities of the Administrative Services Office staff in administering the inmate commissary contract.

Management Action Plan: We concur with the City Auditor on the importance of desk procedures for effective succession planning and operational consistency. Clear documentation is essential for smooth transitions and maintaining performance standards. While the business office currently uses functional hard copy desk procedures, we recognize the need for a more efficient system. We are committed to creating an electronic version that will allow for easier updates, better accessibility, and secure centralized storage.

Estimated Date of Completion: March 2025 due to staffing limitations