

FLORIDA DEPARTMENT OF CORRECTIONS

Inmate Telephone System Contract C#1864

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BACKGROUND

On June 1, 2001, the Florida Department of Corrections (DC) entered into a five-year contract with MCI WorldCom Communications (MCI) to provide, install, repair, and maintain an Inmate Telephone System (ITS). The system has security features designed to proactively reduce fraudulent activities conducted by inmates over the telephone as well as to enhance the operation and security of DC institutions.

The current ITS is primarily a collect-call-only system comprised of over 2,600 coin-less and 250 coin-operated telephones. Rates charged to call recipients from DC correctional institutions for non-local in-state calls, which comprise the majority of all calls, cannot exceed 85% of the Florida Public Service Commission (PSC) maximum allowable rate for station-to-station collect calls.

The contract specifies that DC is to receive a 53 percent commission of MCI gross revenues from all ITS calls. In 2005 this commission generated over \$16 million dollars in revenue for the State of Florida.

OBJECTIVES

Our objectives were to determine whether:

- DC is effectively verifying and monitoring the delivery of service;
- DC is receiving contract commissions in accordance with contract terms; and
- The rates charged are in accordance with contract terms.

SCOPE

We reviewed electronic and paper records of ITS activity between January 2005 and April 2006. We interviewed the two ITS contract managers (operations and accounting) and communicated with other DC and MCI staff who perform ITS-related functions. We also inspected and inventoried ITS equipment at Wakulla CI.

RESULTS OF REVIEW

Although we identified several issues requiring management's attention, we determined that overall, MCI has provided an effective ITS which meets the operational and fiscal specifications enumerated in the contract.

Management has taken action to comply with the recommendations as indicated in their responses found below each finding and recommendation.

We also identified an alternative to the existing collect-call only ITS that could provide cost savings to inmate family and friends and yield adequate revenue to DC and the contractor.

WAYS TO LOWER PHONE CHARGES

To reduce the cost to inmate families and friends and take advantage of current technology, DC should consider offering an ITS that allows prepaid/debit and collect call capabilities. Rates for prepaid calls are significantly less than a collect call because these calls can eliminate both the surcharge cost and the risk of uncollectible or bad debt to the telephone provider. Currently, telephone provider contracts with the Departments of Corrections in Virginia, Ohio and Missouri offer prepaid discounts ranging from 10 to 20 per cent of the normal collect call rate. It is highly probable that the reduction in cost to the call recipients will cause an increase in the volume of calls made which could increase the net revenue to DC.

Prepaid calls offer a win/win situation for all parties involved. It provides a reduction in cost to inmates and their family and friends, eliminates bad debt to the telephone provider and continues to provide revenue to DC without compromising security.

In addition to offering prepaid calls, DC could increase the inmate telephone call list from 10 individuals to 15 individuals and extend calls longer than the now 15 minutes.

RATES MET TERMS OF CONTRACT

We tested almost seven million calls listed on the January through December 2005 call detail reports, and found no material deviations from the following schedules of maximum rates specified in the contract:

COINLESS COLLECT CALLS

CALL TYPE	SURCHARGE	RATE /MINUTE
Local	\$1.75	\$0.00
Intrastate	\$1.49	\$0.255
Interstate	\$3.95	\$0.89

Coinless telephones are installed within secure Correctional Institutions and Work Camps.

COIN COLLECT CALLS

CALL TYPE	SURCHARGE	RATE /MINUTE
Local	\$1.75	\$0.30
Intrastate	\$1.75	\$0.30
Interstate	varies	varies

Coin-operated pay telephones are installed primarily at Work Release Centers.

Rates for international calls, which account for less than one percent of all ITS usage, vary widely by destination and carrier.

COMMISSIONS WERE PROPERLY PAID

We tested the electronic records of the ITS calls listed on call detail reports for calendar year 2005. We calculated the state's 53% commission from this information and found that the commission was paid in the correct amount and within time limits set by the contract. The total paid to the state for 2005 was \$16,086,048. Payments were verified monthly by the accounting contract manager's staff. One weakness in the verification process is that it relies on MCI-supplied data to determine call charges and commissions. This risk is mitigated somewhat by the use of an independent accounting firm which places test calls and reports on the integrity of the MCI-supplied data files. However, the verification process could be strengthened by implementing recommendations presented in *Finding #4* below.

FEW COMPLAINTS FILED WITH PSC

We found only nine ITS-related complaints filed with the PSC since January 2004. Most involved calls blocked due to a lack of local service agreements with MCI or recipients who were billed for calls they said they had not accepted.

FINDINGS AND RECOMMENDATIONS

In addition to the primary contract deliverables described above, we identified five significant issues in contract performance and oversight which we feel warrant management's attention. They are as follows:

Finding No. 1: Operations Contract Managers did not monitor and document contractor performance.

Finding No. 2: Management neglected to assess \$722,000 in liquidated damages for MCI's failure to complete routine service repairs within 24-hour time limits.

Finding No. 3: New inmate PIN numbers are not being processed and activated timely.

Finding No. 4: MCI's CPA firm's methodology in testing for reliability of the ITS has weaknesses in that the same telephone numbers have been called since the inception of the contract in 2001.

Finding No. 5: MCI has not provided proof of required performance guarantee.

Finding #1: Operations Contract Managers did not monitor and document contractor performance.

Management could not provide documentation to verify that the current nor previous operations contract managers have evaluated contractor performance since the inception of the contract.

There is no evidence of on-site reviews, or monitoring of MCI's performance by ensuring the receipt and review of:

- Quarterly updated list of telephone numbers by facility and all coin operated telephones;
- Monthly cumulative "down time" report of system failures and repair times; and
- Monthly listing of PIN information

Our review of the above noted reports identified deficiencies which will be discussed in Findings #2 and #3.

The operations contract manager recently developed a monitoring tool for evaluating service. However, this monitoring tool duplicates contract language without focusing on or prioritizing compliance with critical service issues. The items to be measured should be structured according to priority, so that the most critical service issues are monitored first.

We recommend that the operations contract manager obtain the required reports from the contractor, review them in a timely manner, maintain a contract management file, implement prioritized monitoring activities, and perform site visits to verify service delivery;

Management's Response: *The Bureau of Facility Services is presently developing a monitoring plan which will include identification of Regional and Institutional Contract Managers to assist Central Office Contract Manager in proper monitoring. Plan will include monitoring tools, reporting requirements and schedules for review.*

Finding #2: Management neglected to assess \$722,000 in liquidated damages for MCI's failure to complete routine service repairs within 24-hour time limits.

The contract requires all routine service failures to be repaired within 24 hours. Failure to meet these response times should have resulted in liquidated damages of \$1,000 per day for each workday or any part thereof exceeding the 24-hour requirement until the repair or replacement has been completed.

We reviewed "Downtime Reports" from October 2005 to March 2006, and found 355 incidents where the 24-hour time limit was exceeded. A total of \$722,000 should have been assessed as liquidated damages. The service calls ranged from broken phones to faulty work stations. It appears this report has never been used as a monitoring tool to ensure prompt service and prevent excessive downtime.

We recommend management pursue the liquidated damages identified and monitor contractor performance to ensure timely repair of service failures.

Management's Response: *A draft letter notifying the vendor of assessment of Liquidated Damages in the amount of \$722,000 has been submitted to the Secretary for review by the Bureau of Facility Services.*

Finding #3: New inmate PIN numbers are not being processed and activated timely.

The contract requires new PIN numbers and inmate calling lists be added to the ITS within five (5) working days of receipt of a written request from DC.

Failure to meet this requirement would subject MCI to liquidated damages of five hundred dollars (\$500.00) per day for each work day or any part thereof exceeding the 5 day requirement until the PINs and/or inmate calling lists are added.

We reviewed the time frame for the activation of new PIN numbers assigned to inmates at the department's three reception centers. At Central Florida Reception Center, it took an average of 15.5 business days for an inmate's PIN number or calling lists to be activated. Many of the forms we reviewed at the three reception centers failed to contain dates sufficient to determine whether department staff or MCI was at fault for the delay in activating new PIN numbers or calling lists. Form DC6-223, Inmate Telephone Agreement and Number List, does not record the date delivered to MCI.

We recommend DC management revise Form DC6-223 to indicate the date of submission to MCI to ensure the timely activation of inmate PIN numbers and calling lists. **We also recommend** the operations contract manager monitor MCI's performance in complying with contract terms for the activation of PIN numbers and calling lists.

Management's Response: *The Bureau of Facility Services is presently developing a monitoring plan which will include identification of Regional and Institutional Contract Managers to assist Central Office Contract Manager in proper monitoring. Plan will include monitoring tools, reporting requirements and schedules for review.*

Finding #4: MCI's CPA firm's methodology in testing for reliability of the ITS has weaknesses in that the same telephone numbers have been called since the inception of the contract in 2001.

The contract requires an independent CPA firm to provide a semi-annual report of the accuracy and reliability of the ITS. MCI selects and pays the CPA firm that conducts the semi-annual reviews. We found the same telephone numbers were called each time the CPA firm conducted the semi-annual audit. Such a practice diminishes the reliability of testing in that by examining prior audits, MCI would know which telephone numbers would be called and could handle

those calls differently than others placed by inmates. All CPA reports to date have indicated "No exceptions found."

We recommend MCI review their selected CPA firm's methodology in conducting the semi-annual reviews to ensure the same inmate telephone numbers are not continuously used. **We also recommend** the Accounting Contract Manager date-stamp the receipt of reports.

Management's Response: *The Bureau of Finance and Accounting concurs with the finding and will comply with the review recommendations.*

Finding #5: MCI has not provided proof of required performance guarantee.

The contract requires a \$1.5 million performance guarantee. MCI's performance bond for \$1.5 million expired on April 1, 2006. A continuation or renewal of this bond has not been secured. As of May 2, 2006 the performance bond has not been renewed. MCI's representative indicated that they are awaiting management's approval.

We recommend MCI obtain and provide proof of adequate performance guaranteed coverage.

Management's Response: *The Bureau of Procurement and Supply provided a copy of an executed Performance Bond secured by the contractor.*