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OFFICE OF THE STATE AUDITOR
COLORADO

FINAL REPORT

Evaluation of Colorado Department of Corrections Budgeting Practices

May 30, 2025

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REPORT NUMBER 2455P

pfm

May 30, 2025

Members of the Legislative Audit Committee:

This report contains the results of a performance evaluation of Colorado Department of Corrections' budgeting practices. The evaluation was conducted pursuant to Colorado House Bill 24-1462 and codified in Colorado Revised Statute (C.R.S.) Section 2-3-130. The statute requests an evaluation of "department of corrections' budget practices, including personnel-related costs, contract staff spending, operational costs driven by caseload, user fees levied, and the cash funds associated with the department of corrections." The report presents our findings, conclusions, and recommendations, and the responses of the Department of Corrections.

Respectfully,

Sarah Schirmer, Managing Director
PFM Group Consulting LLC

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Report Highlights

Department of Corrections Budgeting Practices

Department of Corrections

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Key Concern

The Colorado Department of Corrections (Department) has not used a consistent, accurate, and transparent methodology to develop and justify its budget requests over the past four years. As a result, the inconsistencies make it difficult to track the Department's historical expenditures and hold it accountable for managing to its budget.

Key Findings

- Although the Department incorporates some best and standard practices when developing it budget requests, its overall approach to estimating its caseload-related costs for budget requests fundamentally differs from methods used in other jurisdictions. For example:
  - In the past three budget cycles, the Department submitted caseload requests to change its funded bed capacity up or down by less than 500 beds at least six times based on population projections. Other states with a similar budgeting process typically only request funding for additional beds if a new facility is needed.
  - The Department applies a systemwide vacancy rate when developing its caseload requests. However, many state corrections departments do not use a systemwide vacancy rate for budgeting purposes because it is not an accurate tool to determine capacity and funding needs.
- The Department does not request the number of staff needed to account for continuous staffing coverage in its facilities and does not estimate and request sufficient funds to cover its actual personnel expenditures. Instead, it has used savings from unfilled positions to cover the unbudgeted costs. This practice underrepresents the true personnel costs and is not sufficiently transparent.
- The Department is not following best practices when making funding requests for caseload-related operational costs. Specifically, the Department estimates per-inmate operational costs based on prior appropriations, not actual expenditures; it bases average cost estimates on projected caseloads rather than actual caseloads; and it uses two different methodologies for factoring in fixed and variable costs. With this methodology, fixed costs such as utilities and maintenance appear more expensive per inmate over time when beds are closed and then reopened.
- The Department does not provide clear or complete explanations of the assumptions and methodologies that it uses to prepare its caseload requests and submits requests with information that is inaccurate, incomplete, and inconsistent. The Department's level of detail, content organization, analysis, and justification in its caseload requests was different in each year reviewed.
- The Department over-estimated its Correctional Industries budget by increasing margins in its past six budget requests. In the most recent two fiscal years, the Department requested more than twice the amount it spent. As a cash fund this does not directly impact General Fund appropriations but reflects inaccurate budgeting.

Background

- The Department has jurisdiction over more than 26,700 individuals who are housed in state and private prison facilities and local jails and residential transition programs, and who are on parole.
- Under Colorado's budgeting practice, Executive Branch departments, including the Department, prepare an incremental budget request each November, which means the prior year's budget is the starting point. Departments may also submit supplemental budget requests in January to amend their current year funding level and/or amend their budget request for the following fiscal year.
- The Department uses the annual budget process to request an increase or decrease in funds (and FTE) to allow it to open or close beds in correctional facilities to align with population projections.

Recommendations Made

32

Department Responses

Agree: **32**

Partially Agree: **0**

Disagree: **0**

CHAPTER 1: OVERVIEW OF COLORADO DEPARTMENT OF CORRECTIONS

The Colorado Department of Corrections (Department) is responsible for managing two populations: individuals sentenced to a correctional facility and individuals released from a correctional facility to adult parole. At the end of March 2025, the Department had jurisdiction of more than 26,700 sentenced individuals housed in state and private prison facilities, local jails and residential transition programs, and on parole.

- **Prison Operations:** The Department's executive director, and thereby the Department, is tasked by Section 17-1-103, C.R.S., to "manage, supervise, and control the correctional institutions operated and supported by the state; to monitor and supervise the activities of private contract prisons…[and] to establish an environment that promotes habilitation for successful reentry into society."
- **Parole Operations:** Per Section 17-2-102(8), C.R.S., the Department's division of adult parole "shall establish and administer appropriate programs of education and treatment and other productive activities, which programs and activities are designed to assist in the rehabilitation of an offender."

The Department has a third responsibility to manage a division of correctional industries, which is led by a director appointed by the Department's executive director [Section 17-24-104, C.R.S.]. The Department's Division of Correctional Industries is an enterprise, as defined by the Colorado Constitution (Article X, Section 20): "a government-owned business authorized to issue its own revenue bonds and receiving under 10% of annual revenue in grants from all Colorado state and local governments combined." This division is interchangeably called Colorado Correctional Industries and Correctional Industries (or CCI).

In Fiscal Year 2024-2025, the Department's budget is $1.17 billion, an amount that reflects a four percent compound annual growth rate (CAGR) compared to its budget of $928 million in Fiscal Year 2018-2019. In the last full fiscal year (Fiscal Year 2023-2024), the Department's actual expenditures had increased by a CAGR of 3.0 percent compared to Fiscal Year 2018-2019.

Table 1 shows the Department's initial budget request in Fiscal Year 2018-2019 through Fiscal Year 2025-2026, submitted as part of the Governor's Executive Branch Budget Request on November 1; its amended budget request submitted two months later as part of the supplemental process in January; the amount appropriated by the General Assembly, inclusive of budget amendments and supplemental funding requests; and actual expenditures (see below for an introduction to Colorado's and the Department's budget calendar and process).

Table 1: Department Budget Requests, Appropriations, and Expenditures, Fiscal Year 2018-2019 – Fiscal Year 2025-2026

Fiscal Year	November Request	January Amended Request	Adjusted Appropriation	Actual Expenditures
FY 2018-2019	$922,014,329	$925,962,685	$928,048,606	$908,734,417
FY 2019-2020	$979,147,969	$970,733,158	$998,134,380	$951,237,636
FY 2020-2021	$1,007,020,518	$1,006,939,869	$949,643,357	$960,525,571
FY 2021-2022	$940,205,725	$963,258,651	$967,271,654	$925,890,723
FY 2022-2023	$983,460,798	$1,006,767,707	$1,020,203,972	$968,532,887
FY 2023-2024	$1,048,250,694	$1,102,574,738	$1,099,206,104	$1,055,118,314
FY 2024-2025*	$1,217,112,396	$1,209,832,587	$1,173,002,813	$854,600,000***
FY 2025-2026*	$1,214,516,591	$1,200,352,087	$1,185,449,095	n/a
FY 2019-2026 CAGR**	**4.0%**	**3.8%**	**3.6%**	**n/a**

Sources: November Request and January Amended Request sourced from Department of Corrections January Supplemental Request, Schedule 00 Reconciliation Summary; Adjusted Appropriation sourced from Colorado's Appropriation Reports; Actual Expenditures sourced from Department of Corrections November Request, Schedule 2
Note: To capture supplemental requests, each fiscal year's request sourced from the following fiscal year's report (e.g., Fiscal Year 2018-2019 sourced from the Fiscal Year 2019-2020 Schedule 00 and Appropriations Report).
* Fiscal Year 2024-2025 and Fiscal Year 2025-2026 are sourced from the Fiscal Year 2025-2026 Long Bill as introduced; FY 2025-2026 January Amendment sourced from January 9, Schedule 12.
**CAGR stands for compound annual growth rate.
***Fiscal Year 2024-2025 actual expenditures reflect the period July 1, 2024 through March 31, 2025. This number does not remove funds related to the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program authorized by the American Rescue Plan Act, which total $323.8 million.

The Department's budgeted staffing levels have remained level over the last four fiscal years – between the last day of Fiscal Year 2021-2022 and November 7, 2024 (i.e., Fiscal Year 2024-2025), as shown in Table 2. A slight increase in the number of correctional officers (48 more) has been offset by a similar decrease in non-correctional officer staff (29 fewer).

Table 2: Department Budgeted Positions (FTE), Last Day of Fiscal Year 2021-2022 – Fiscal Year 2024-2025

	FY 2021-2022	FY 2022-2023	FY 2023-2024	FY 2024-2025	FY 2022-2025 CAGR*
Correctional Officers	3,580	3,614	3,637	3,628	0.4%
Non-Correctional Officers	3,221	3,216	3,174	3,192	-0.3%
Total	**6,801**	**6,830**	**6,811**	**6,820**	**0.1%**

Source**:** Colorado Department of Corrections, Position Status History
Note: Data for Fiscal Years 2021-2022 through 2023-2024 is as of the last day of the fiscal year. Fiscal Year 2024-2025 is represented by data from November 7, 2024.
* CAGR stands for compound annual growth rate.

The Department maintains several cash funds, which are statutorily designated funds, each with a specific purpose established by law. See Table 3 for a list of each of the major funds; these funds are described in more detail in Chapter 3 of this report.

Table 3: Department Cash Fund Accounts, Fiscal Year 2023-2024

Fund Name	Primary Sources of Fund Revenue	Primary Department Uses of Fund Revenue	FY 2023-2024 Revenue*	Percent of Total Cash Fund Revenue
Correctional Industries Account	Sales of goods and services to entities outside the Department	For operation of Correctional Industries programs	$26,064,507	49.6%
Canteen, Vending Machine, and Library Account	Items sold to inmates or visitors; fees for inmate phone system (passed through to pay vendor)	For Canteen operations and vending machines; profits are reinvested into programs for inmates	$20,826,373	39.7%
State Criminal Alien Assistance Program	Federal funding	For costs to incarcerate undocumented inmates under the federal "Immigration and Nationality Act," 8 U.S.C. sec. 1231 (i)	$5,400,014	10.3%
Other (Correctional Education Program, Land Board, Fallen Officer Memorial)	Sale of goods and services; transfers to Department; donations	Programs for inmates to learn skills and earn certifications; water or land improvement projects; and maintaining a Fallen Officer Memorial at one facility	$203,406	0.4%
Total			**$52,534,300**	**100.0%**

Source**:** Colorado Department of Corrections, Schedule 9 Reports and Canteen Annual Reports
*Includes non-operating and interest revenue.

Correctional Facilities

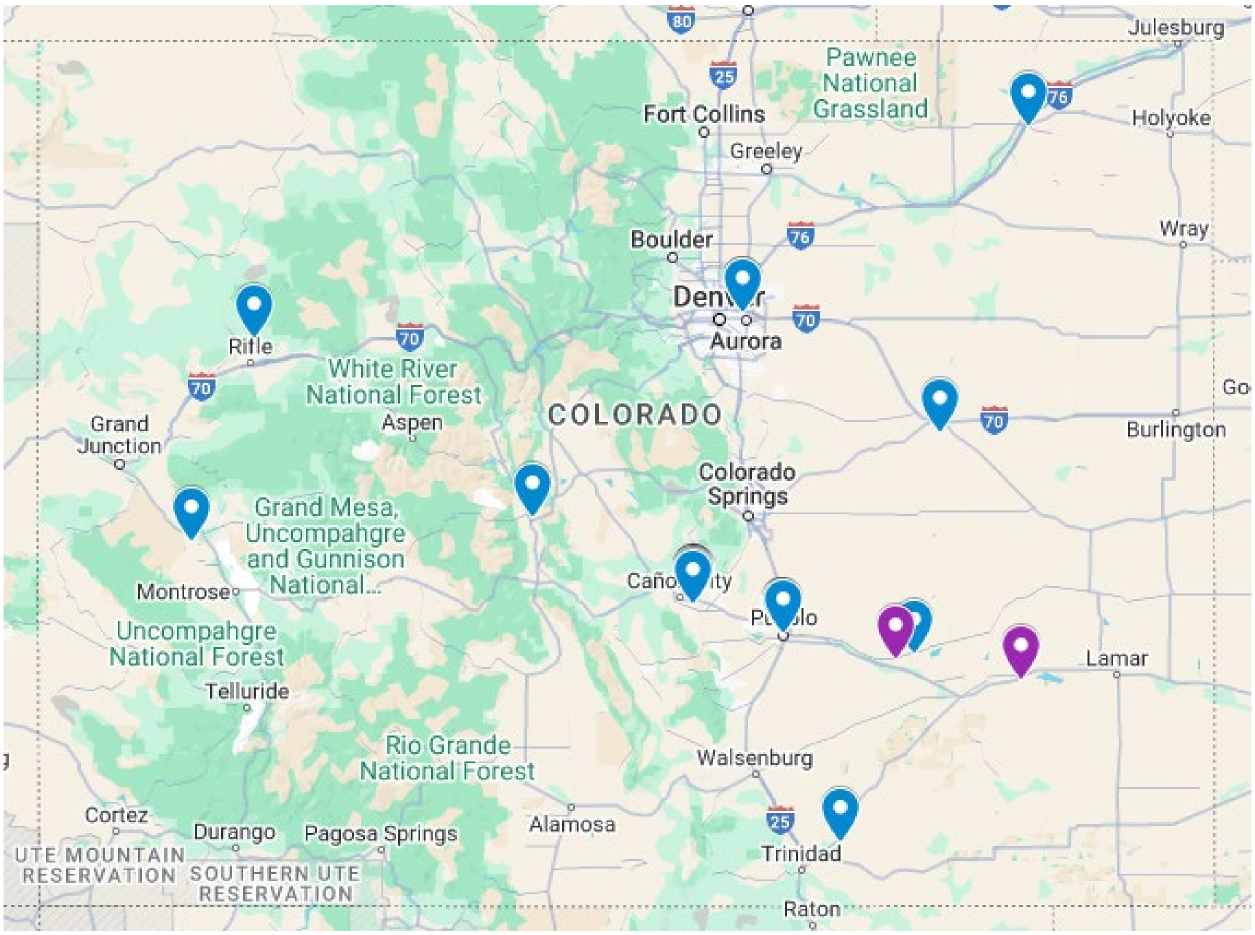
The Department directly operates 19 state prisons and contracts with CoreCivic, a private prison contractor, to house inmates in two of its private prisons because Colorado's inmate population exceeds state prison capacity. As of March 31, 2025, there were 15,986 inmates in state and private prisons plus another 1,701 individuals under Department jurisdiction who were either housed in local jails, were partaking in a community corrections program, or had escaped.[1]

- **Local Jails:** In Colorado, as in other states, individuals who are convicted of a crime and sentenced to a term of state incarceration are typically detained first in a local jail until they can be transferred to state custody. Section 16-11-308.5, C.R.S., authorizes the Department to contract with local jails to house a backlog of people sentenced to prison, as needed. The Department estimates the costs of local jail contracts in its annual budget requests.
- **Community Corrections:** Inmates preparing to transition back to the community from a correctional facility and parolees are housed in community corrections programs while receiving supervision and treatment. Although these programs serve individuals under the Department's jurisdiction, in addition to people sentenced to alternative placement (i.e., diversion), they are funded and operated by the Office of Community Corrections within the Department of Public Safety's Division of Criminal Justice.

The Department's facilities are located across the state (see Figure 1), with seven facilities clustered in Cañon City, and three facilities located on the Pueblo Campus. The Department also operates a centralized inmate intake center in Denver. Male inmates are housed in 17 of the 19 state prisons and both private prisons; female inmates are housed in the remaining two state prisons (Denver Women's Correctional Facility and La Vista Correctional Facility). Appendix A provides a list of the 19 state prisons and 2 private prisons and each facility's population, as of March 31, 2025.

[1] This number does not include approximately 200 inmates housed in the Youthful Offender System who are under the age of 24 and were sentenced as a result of Senate Bill 15-182. Colorado Department of Corrections, "Monthly Population and Capacity Reports – March 2025," accessed May 19, 2025 at https://drive.google.com/file/d/1cGRGjrFg5K7cPO67O8YZccAKfvp3UruQ/view.

Figure 1: Map of Department State- Run and Contracted Private Prisons



Source: PFM created this map based on Colorado Department of Corrections' list of facilities on its website
Note: Cañon City includes 7 facilities, the Denver Complex includes 2 facilities, and the Pueblo Campus includes 3 facilities. Purple markers identify the two private prisons with which the Department contracts.

Between the last day of Fiscal Year 2018-2019 and March 31, 2025, the Department's total inmate and parolee population under its jurisdiction decreased by a CAGR of -2.7 percent (see Table 4 for more detail). Over that period, all populations (prison inmates, non-prison inmates, and parolees) decreased.

Following the onset of the COVID-19 pandemic in Fiscal Year 2019-2020, the Department's total population decreased 10.2 percent and has remained around 27,000 people since that time. However, not all populations that compose the 27,000 have followed the same trend. While the parole population has declined each year since Fiscal Year 2021-2022, the number of inmates in a state or private prison or in a local jail/residential transition ("non-prison inmate" in the table) has increased each year since then.

Table 4: Individuals Under Department Jurisdiction, Last Day of the Fiscal Year, Fiscal Year 2018-2019 – Fiscal Year 2024-2025

	FY 2018-2019	FY 2019-2020	FY 2020-2021	FY 2021-2022	FY 2022-2023	FY 2023-2024	FY 2024-2025*	FY 2019-2025 CAGR
State and Private Prison								
Male	16,453	14,383	12,870	13,897	14,335	14,639	14,809	-1.7%
Female	1,662	1,252	860	1,114	1,242	1,248	1,177	-5.6%
Subtotal Prison Population	18,115	15,635	13,730	15,011	15,577	15,887	15,986	-2.1%
Non-Prison Inmate	1,836	1,806	1,704	1,350	1,477	1,602	1,701	-1.3%
Subtotal Inmate Population	19,951	17,441	15,434	16,361	17,054	17,489	17,687	-2.0%
Parole	11,537	12,801	11,726	10,050	9,456	9,334	9,101	-3.9%
Total Jurisdictional Population	**31,488**	**30,242**	**27,160**	**26,411**	**26,510**	**26,823**	**26,788**	**-2.7%**

Source: Colorado Department of Corrections, Monthly Population and Capacity Report, June 30 of each fiscal year
*As of March 31, 2025

Organizational Structure

The Department is led by an executive director and two deputy executive directors who oversee the Department's primary organizational units: Prison Operations and Community Operations.

Prison Operations includes inmate security and care (Prisons Division), Clinical and Correctional Services, and the Department's Business Innovations Group (BIG).

The Prisons Division includes centralized staff that manage inmate safety and programming, and staff in each of the state facilities. Each facility has its own detailed organization chart that contains security, administrative, operational, programs, and clinical functions. The Prisons Division's Private Prison Monitoring Unit oversees the Department's two contracts with private facilities.

Similarly, the Clinical and Correctional Services Division contains centralized staff that oversee and manage clinical and behavioral health services across all facilities and the staff that provide relevant services within each facility.

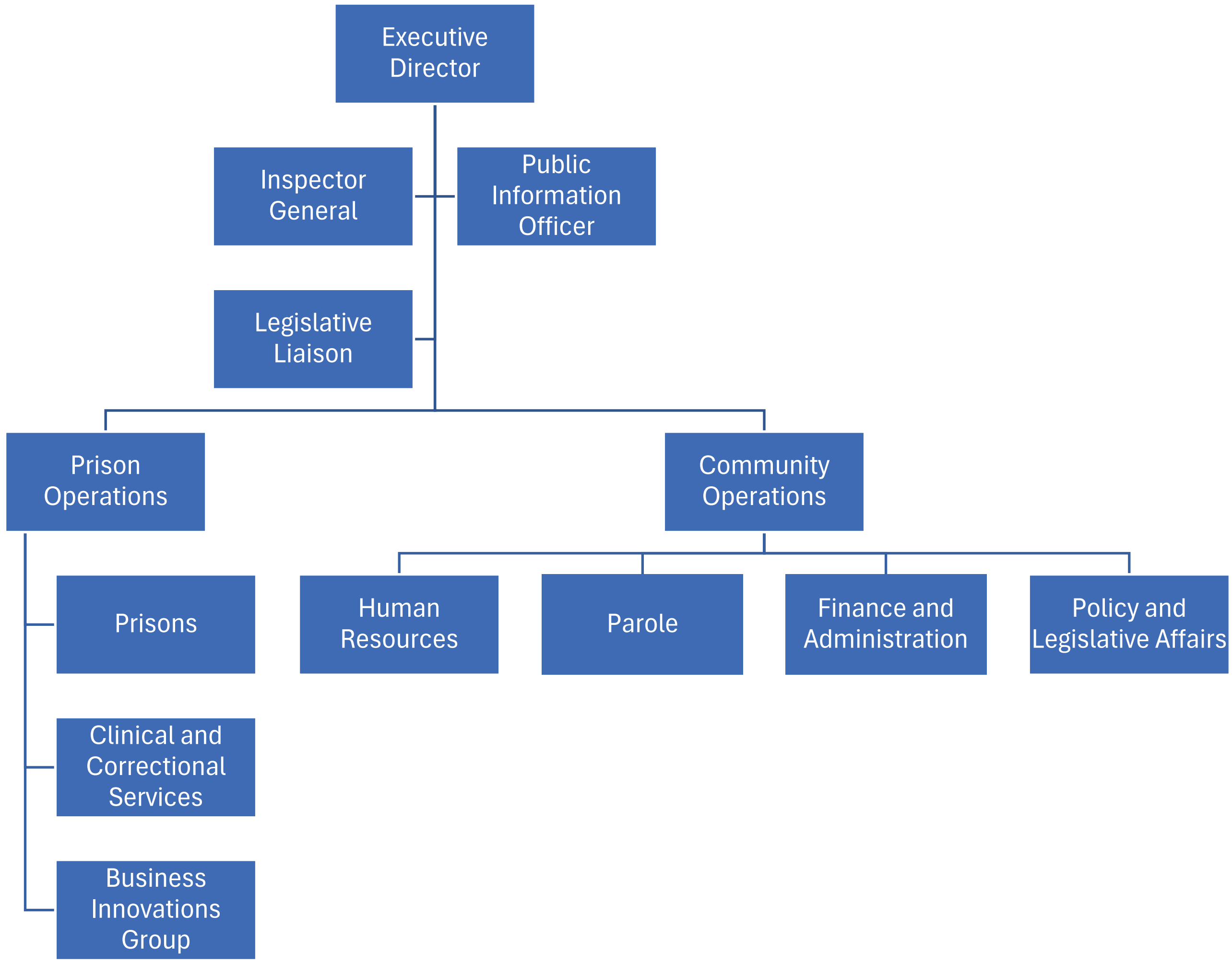
BIG is responsible for producing statistics and monthly/annual reports, creating data dashboards, and managing the Department's records management system. BIG provides data externally to other state agencies (e.g., to Department of Public Safety's Division of Criminal Justice), internally (e.g., for planning purposes), and to the public through the Department's website (e.g., the Monthly

Population and Capacity Report). BIG is also currently managing the Department's transition from its legacy records management system to an electronic management system ("eOMIS") to manage inmate information and movement from the point of admission until release from parole.

Community Operations includes the Department's parole function, as well as the Finance and Administration Division, Human Resources, and Policy and Legislative Affairs.

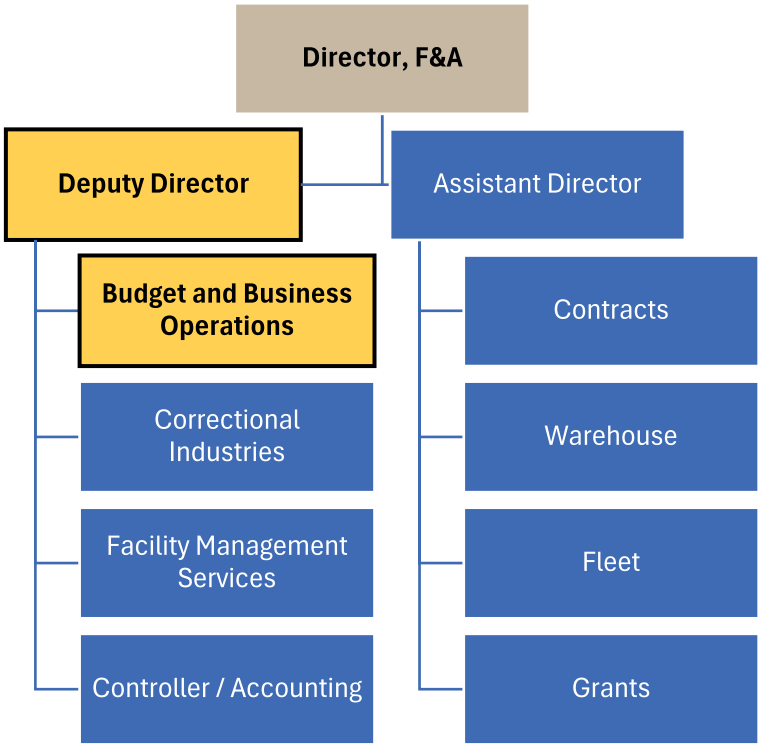
The Finance and Administration Division contains many Department functions: CCI, the budget team (Budget and Business Operations), accounting/controller, procurement, facility management (the physical plant of facilities), warehouse services for bulk purchases, fleet management, and grants. In the past, Budget and Business Operations had oversight over many of these functions in addition to developing and managing the Department's budget. Over the last three years, the Department reorganized the Finance and Administration Division and shifted some responsibilities and staff (e.g., fleet, accounting, warehouse, payroll) out of Budget and Business Operations and moved it under other Finance and Administration Division assistant directors and the Division's deputy director. This decision was made to allow the budget team to focus its time on budget development and management and to decouple budget and accounting (i.e., controller) functions.

Figure 2: Department Organizational Chart, September 2024



Source: Colorado Department of Corrections, “DOC Overview Sept 1, 2024”

Figure 3: Finance and Administration Division Organizational Chart, November 2024



Source: Colorado Department of Corrections, "Finance and Administration (F&A) Org Chart 2024-11"
Note: Divisions and offices with primary responsibility for budget preparation are highlighted.

Budget Planning and Development

Colorado's fiscal year is July 1 through June 30 and the process to develop its budget begins formally in early November of the previous fiscal year (typically the 1st) with submission of the Governor's Executive Branch Budget Request to the Joint Budget Committee (JBC).[2] Two months later, in January, departments may make supplemental funding requests to amend the current fiscal year's budget and/or the budget request submitted in November.[3] The budget process ends by the following May with the General Assembly's passage and Governor's approval of the Long Bill, or the annual appropriations act for the State.

[2] This report describes only the process for the State's operating budget. Capital construction and major information technology requests are submitted to the Capital Development Committee and the Joint Technology Committee, respectively.
[3] Colorado departments may also submit an emergency supplemental request as needed, pursuant to Section 24-75-111, C.R.S. ("1331 Supplemental Request").

Colorado uses continuation budgeting, also known as incremental budgeting. The Government Finance Officers Association (GFOA) defines incremental budgeting as "last year's budget is used as the starting point for next year's budget, with incremental changes at the margin according to how revenues change."[4] In Colorado, the prior year's Long Bill is the starting point for the next year's budget. Incremental changes at the department level include across-the-board changes to employee compensation and benefits, adjustments to account for legislation with a budget impact, and adjustments to centrally appropriated line items such as payments to Colorado's Office of Information Technology, unfunded liability payments, and vehicle lease payments.

In addition to the incremental changes to the Long Bill, departments may submit change requests (alternatively called funding requests in this report) with their November submission and/or during the January supplemental process. Change requests include decision items, base reduction items, supplemental requests, and budget amendments. The first two are submitted with the November budget request and the latter two are submitted during the January supplemental process. As defined on the Colorado Governor's website:[5]

- **Decision items** are requests for an increase in spending and/or funds in the budget request year beyond the base operating request;
- **Base reduction items** are requests that result in a reduction of total funds in the request year;
- **Supplemental requests** are adjustments to appropriations for the current fiscal year; and
- **Budget amendments** are requests that are submitted to make changes to the request year budget after it has been submitted to the JBC on November 1.

Departments present their November budget requests to the JBC in December and their January supplemental funding requests to the JBC in February and March (colloquially in Colorado, supplemental funding requests are inclusive of supplemental requests and budget amendments). They also respond in writing to requests for information about the funding requests from the JBC and JBC staff.

JBC staff present their analysis and recommendations on department funding requests to the JBC in a similar timeframe. In March, JBC staff prepare for the JBC's consideration of a figure setting document for each department, which summarizes staff's analysis and recommendations on each funding request.

After departments submit supplemental funding requests in January and at the end of the figure setting process, departments may submit a comeback request, asking the JBC to reconsider a

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[4] Government Finance Officers Association, "A Guide to Designing a Local Budget," accessed April 20, 2025 at https://www.gfoa.org/long-form/a-guide-to-designing-a-local-government-budget.
[5] Colorado Governor, "Budget Terms," accessed April 2, 2025 at https://www.colorado.gov/governor/budget-terms.

funding decision in light of new information, to correct a technical error, or clarify a previous JBC action.[6]

Although the budget cycle formally kicks off with submission of the Governor's budget request in early November, departments prepare for the next budget cycle all year. The Department's internal calendar to develop funding requests lays out a process that starts with generating a set of potential requests from the Department's division leaders in January for the fiscal year starting the following July (e.g., the initial set of funding requests for Fiscal Year 2025-2026 were developed in January 2024).[7] Table 5 provides an overview of the Department's timeline to develop its November budget request and January supplemental request, followed by a description of the Department's internal processes.

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[6] Colorado General Assembly, "Joint Budget Committee Staff – The Budget Process," accessed April 20, 2025 at https://leg.colorado.gov/agencies/joint-budget-committee/budget-process#:~:text=Comebacks,reconsider%20one%20or%20more%20actions..

[7] Colorado Department of Corrections, "Decision Item Funding Request Timeline" provided to PFM, November 19, 2024.

Table 5: Department Steps to Prepare Annual Budget Requests

Month	Activity
January	Division leaders submit initial ideas for funding requests internally for fiscal year beginning July 1 of the following year
February	Executive Team begins to prioritize new funding requests
March	Division leaders complete funding request forms for internal consideration of prioritized funding requests Governor's Office provides budget instructions to agencies
April	Executive Team finalizes funding requests
May	Budget staff work with division leaders to determine the cost and justification for each funding request
June	Draft funding requests submitted for Finance and Administration Division review
July	Funding requests submitted to Executive Team for final review
August	Submit funding requests to Governor's Office of State Planning and Budgeting (OSPB)
September-October	Refine funding requests based on OSPB feedback
November	Governor's Office submits Executive Branch budget to the JBC
December	JBC and Department budget hearings
January	Submit supplemental requests to JBC Comeback requests submitted
February-March	JBC and Department budget hearings
March	Figure setting process: Legislature introduces and debates Long Bill Comeback requests submitted
April-May	Long Bill passed by Legislature and approved by Governor

Source: Adapted from Colorado Department of Corrections, Decision Item Funding Request Timeline

The Department's Finance and Administration Division (and its Budget and Business Operations team within the Division) lead the Department's preparation of its budget requests. DOC Administrative Regulation 100-02, Budget Preparation Procedures, provides some guidance and detail about the Department's approach to developing budget requests. The Department also provides written instructions and guidance to its division leaders to help with budget preparation, including the timeline in Table 5, which was created for Fiscal Year 2024-2025 and updated for the Fiscal Year 2025-2026 budget cycle.

Before the Department solicits potential funding requests in January, the Deputy Director of Finance and Administration and Budget and Business Operations Director finalize the budget development timeline and information they will request from division leaders. They also meet with division leaders to identify funding needs and priorities and begin to share those with the Department's Executive Team.[8]

The Department's budget staff shared that the Department's current approach to identifying funding request items is more collaborative and iterative than in the past. Prior to the last two years, funding requests were largely selected by previous budget directors without much buy-in from the Department's division leaders or the Executive Team. Under current Finance and Administration Division leadership, division leaders are invited to share ideas and participate in the process to refine them.

After the Department's Executive Team initially narrows its list of funding requests in February, the Finance and Administration Division asks division leaders to complete a funding request form with more information for internal consideration. Division leaders are asked to answer three questions for each funding request, which align to the information departments provide for the JBC's consideration during the budget cycle:[9]

1. What is the need, problem, or opportunity?
2. What is the proposed solution and if funded/granted, what are your anticipated outcomes?
3. What is the evidence-based background information about the current program, office, work unit, etc. that will enable a complete understanding of how the request will solve or make better your problem or opportunity?

Division leaders provide this information to the Finance and Administration Division in March and then provide four additional pieces of information for each funding request in mid-April, before the Executive Team finalizes the set of funding requests it will submit to OSPB for consideration in August.

1. Who is your subject matter expert that will develop your funding request?
2. What will be your key argument to support your funding request?
3. What evidence/data do you currently have?
4. What data will you need from [the Department's Office of Planning and Analysis] to make your case?

[8] The Department's Executive Director and two Deputy Executive Directors comprise the Executive Team.
[9] Colorado Department of Corrections, internal email correspondence, provided to PFM, November 19, 2024.

The Department's Change Request Instructions (updated ahead of each budget cycle) detail how division leaders should develop cost estimates for prioritized funding requests and clarify which costs the Department's Budget and Business Operations team will prepare (e.g., personnel costs, operational costs driven by inmate population, and operational costs related to a facility program plan). According to the instructions, Budget and Business Operations also provides guidance to division leaders on what should be included in start-up costs for new employees (e.g., uniform, equipment, desk, desk phone, etc.). Examples of operational costs driven by inmate population are drug testing, prescription medication, medical services, clothing, mileage, release-related costs, and food services.

During the budget cycle itself, from November through May, the Department's Finance and Administration Division (and Budget and Business Operations) lead the Department's presentation of its November budget request and any supplemental requests. The Budget Director coordinates the Department's responses to questions from the JBC and JBC staff, which may arrive formally through requests for information, or informally via email.[10]

EVALUATION PURPOSE, SCOPE, AND METHODOLOGY

The Colorado Office of the State Auditor (OSA) contracted with PFM Group Consulting LLC (PFM) to conduct a third-party evaluation of the Department of Corrections' budget practices pursuant to Colorado House Bill 24-1462 and codified in Colorado Revised Statute (C.R.S.) Section 2-3-130. The statute authorizes the OSA to engage a third-party consultant to work in partnership with the Department of Corrections to evaluate "department of corrections' budget practices, including personnel-related costs, contract staff spending, operational costs driven by caseload, user fees levied, and the cash funds associated with the department of corrections."

The legislation was created in response to concerns from the Joint Budget Committee (JBC) regarding the accuracy and transparency of the Department's budget requests over the past four years and its changing methodologies to calculate caseload-related costs.

The OSA engaged PFM on October 1, 2024, and PFM conducted its evaluation activities between that date and May 14, 2025. The Department of Corrections has worked in partnership with PFM throughout the evaluation, and the PFM team appreciates Department staff's responsiveness, investment of time, shared knowledge, and openness to this work.

Per House Bill 24-1462 and the associated Request for Proposals released by the OSA, PFM focused its evaluation on four primary areas about how the Department:

1. Estimates caseload-driven costs for budget requests
2. Estimates personnel costs and spending on contract staff for budget requests

[10] The Department hired a new Budget Director in August 2024, so during the Fiscal Year 2025-2026 budget cycle, responses to questions from the JBC and JBC staff were coordinated among Finance and Administration staff and leadership during the new Budget Director's transition.

3. Manages its cash funds
4. Sets fees and inmate wages

To accomplish the evaluation objectives, PFM performed the following work:

- Reviewed relevant Colorado state laws and Department administrative regulations and policies
- Reviewed Department initial and supplemental budget requests, requests for information, and comeback requests and responses, and JBC Staff Figure Setting and Staff Budget Briefing documents for Fiscal Years 2022-2023 through 2025-2026
- Reviewed population projections from the Division of Criminal Justice and Legislative Council Staff that were published in Calendar Years 2023 and 2024
- Reviewed other Department administrative records and documents, including long-range financial plans, annual reports, population and capacity reports, prison utilization studies, organization charts, fee and wage schedules, and cash fund reports, among others
- Interviewed the JBC staff analyst for the Department, OSPB staff, and Department of Personnel & Administration staff
- Interviewed Department staff in the following divisions: Finance and Administration (including Budget and Business Operations and Facility Management Services within the division); Prison Operations (including Offender Services, Prison Programs, Private Prison Monitoring Unit, and Time and Release within the division); Clinical and Correctional Services; Business Innovations Group (including Office of Planning and Analysis within the division); Human Resources; Policy and Legislative Affairs; and Colorado Correctional Industries
- Virtually observed a Department Bed Planning Committee meeting
- Virtually observed relevant Fiscal Year 2025-2026 JBC Budget Hearings
- Conducted best practice research that focused on projecting prison populations (and using those projections); defining prison capacity; planning for classification levels; state-level annual and mid-year budgeting processes; financial planning processes; staffing plans, staffing ratios and shift relief factors; use and reporting of cash funds; and inmate fees and wages

In partnership with the Department, PFM released a survey to all U.S. state corrections departments through the Correctional Leaders Association (CLA) on relevant budgeting topics, which provided useful information on how the Department's practices are similar to and different from its peers. In total, 21 states responded to the survey. Following the survey, PFM interviewed staff from eight of the responding states, which, like the Department, have both prison and parole responsibilities and also use a continuation budget: Connecticut, Indiana, Kansas, Nebraska, North Carolina, South Carolina, West Virginia, and Wisconsin.

Finally, PFM reviewed the guidance produced by nationally recognized corrections and budgeting experts. Both our team's experience working in and with corrections agencies and state budget departments, and our research for this project, confirm that there are limited best practices available on budgeting for state-level corrections, as defined as evidence demonstrating specific and repeatable outcomes. Where best practices were not readily available, our research sought common and recommended approaches as defined by industry experts and agencies.

A draft of this report was reviewed by the Department. Obtaining the views of responsible officials is an important part of the OSA's commitment to ensuring that the report is accurate, complete, and objective. PFM, in coordination with the OSA, was solely responsible for determining whether and how to revise the report, if appropriate, based on the Department's comments. The written responses to the recommendations and the related implementation dates were the sole responsibility of the Department.

CHAPTER 2: CASELOAD REQUESTS

The most common change request the Department of Corrections (Department) submits in its initial November budget request and during the January supplemental process is a request that is driven by caseload changes (caseload request). The Department defines caseload changes as "offender population growth, an increase in workload, or changes that cannot be achieved within the current level of funding."[11] Caseload requests may seek an increase or a decrease in funding based on expectations for changes in inmate population over the next fiscal year. An increase in funds (and often FTE) allows the Department to open more beds, or make more beds available for housing inmates, and a decrease in funds leads to the Department closing beds.

In the following section we introduce two key aspects of the Department's budget requests and the scope of this evaluation: external inmate population projections that inform caseload requests and the process to project personnel costs.

Inmate Population Projections

Funding for costs related to prison operations and staffing is part of the Department's continuation budget each year (as described in Chapter 1), and roughly equates to funding for a certain number of beds across all state and private prison facilities. The Department's budget team prepares a caseload request to request an increase or decrease in funds based on population forecasts that are developed by the Division of Criminal Justice (DCJ),[12] within the Department of Public Safety, and Legislative Council Services (LCS), a non-partisan agency within Colorado's legislative branch.[13] Since the Department shared that it relies on DCJ's forecast rather than the LCS forecast because it is produced biannually, PFM focused on DCJ's methodology and data.

DCJ's inmate and parole population forecasts analyze trends in Colorado's inmate and parole population to project the male and female populations seven years into the future. DCJ conducts a thorough analysis, the methodology of which is outside the scope of this evaluation. To summarize it briefly, DCJ analyzes new court commitments, parole returns (disaggregated by returns for technical violations and new charges), sentence expirations, discretionary releases, changes to statute, and more. DCJ publishes its population forecast two times per year—it produces a detailed report in January each year (the Winter Report), which it then updates with a shorter report around

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[11] Colorado Department of Corrections, "Department of Corrections Budget Change Request Instructions" provided to PFM, November 19, 2024.

[12] Per Section 24-33.5-503(m), C.R.S., it is DCJ's responsibility to "provide information to the director of research of the legislative council concerning population projections, research data, and other information relating to the projected long-range needs of correctional facilities and juvenile detention facilities and any other related data requested by the director."

[13] LCS prepares a prison and parole population forecast as part of its annual Economic and Revenue Forecast. This report provides a budget outlook based on General Fund revenue and cash funds. In addition to the prison and parole population forecast, LCS also forecasts K-12 enrollment and provides a school finance outlook.

June (the Summer Report). The Department uses the Summer update to prepare its caseload request for the Governor's Executive Budget Request submitted in early November, then uses the detailed Winter analysis to prepare a supplemental caseload request (as needed) for the supplemental process two months later in January.

The Department uses DCJ's shorter Summer update to determine whether its inmate population is expected to increase or decrease in the following fiscal year, and as such, whether it needs to request more funds to open beds or request to decrease funds to close beds. In December, ahead of the supplemental process, the Department reviews DCJ's Winter forecast to determine whether it needs more or less funds for beds in the current fiscal year (i.e., supplemental request) and whether it needs to amend its request for the following fiscal year (i.e., budget amendment).

Personnel Costs

The Department develops its personnel budget in coordination with the Department of Personnel & Administration (DPA) and the Governor's Office of State Planning and Budgeting (OSPB); it is an iterative process to finalize the Department's compensation request, including its requested FTE count. The compensation request is based, in large part, on the Statewide Pay Plan that DPA creates each fiscal year and provides to departments for their compensation calculations. Per DOC Administrative Regulation 100-02, Budget Preparation Procedures, the Department's continuation budget request includes "allocation of prior year salary survey and merit pay appropriations from their centrally appropriated line items into the associated personal services lines."[14]

In July of each year, DPA provides the Department its current payroll data to review. DPA provides this information in July to reflect compensation changes that take effect with the new fiscal year. Since payroll data includes only currently filled positions, departments may add estimated payroll for current vacancies that are critically necessary to fill and any new positions that may have been added since the data was pulled (departments may also remove positions that will not continue in the next fiscal year). For the Department, which has faced significant vacancies in recent years, this process is important for adding back in vacant positions it intends to fill in the current fiscal year and the following fiscal year, for which the budget is being prepared. The Department submits its request to add vacancy payroll amounts to OSPB and, following any adjustments by OSPB, submits the amended position list to DPA.

In developing the Statewide Pay Plan, DPA applies a standard set of assumptions to prior year compensation information, such as, for example, a two percent across-the-board salary increase. On July 1, 2024, a Step Pay Program for eligible classified employees went into effect; DPA incorporated the step structure into the Statewide Pay Plan for the Fiscal Year 2024-2025 budget cycle then, using the Statewide Pay Plan, the Department estimated the impact of the steps on its compensation costs. DPA shared with PFM that some departments may request a tailored pay plan if the standard assumptions are likely to over- or under-estimate personnel costs. The Department

[14] Colorado Department of Corrections, "Department Policies," 1*00-02 Budget Preparation Procedures*, accessed January 6, 2025 at https://cdoc.colorado.gov/about/department-policies.

uses the Statewide Pay Plan provided by DPA to determine the full compensation cost of each position for its baseline budget (based on the prior year's Long Bill, as described in Chapter 1) and compensation costs for any FTE requested, or removed, through change requests.

Finding 1 – Caseload Requests

A caseload request is how the Department requests to increase or decrease its funding in anticipation of changes in inmate population. To develop the costs associated with a caseload request, the Department first estimates how its caseload will change using essentially three figures:

- The **current funded capacity** is the number of beds in state-owned facilities for which funds have already been appropriated, including any beds that are unavailable for occupancy due to maintenance needs.
- A **vacancy rate** is a percentage of beds that need to be available to house inmates above the projected population to allow for unplanned population spikes and movement of inmates among facilities and custody levels. The 2021 Colorado State Prison Utilization Study notes that "it is impossible to literally use all prison capacity on an ongoing basis. Operational issues such as … the need for available cells to accommodate fluctuations in the prison population, as well as the continual movement of inmates within and between facilities, dictates that systems need to maintain a minimum number of vacant beds for management purposes."
- The **projected inmate population** is the number of inmates the Department expects to house, on average, during the fiscal year. In the budgeting process, the projected inmate population equates to the Department's caseload. The Department's method for calculating its projected inmate population based on DCJ population forecasts is described in this finding.

Each of these figures is reflected in Table 6, based on an excerpt from the Department's Fiscal Year 2025-2026 caseload request in November 2024. The Department starts with its current funded capacity (rows A and B in the table), deducts beds that are unavailable for occupancy due to maintenance (row C), and deducts beds to account for the vacancy rate (2.5 percent in this request, row E). The Department then requests funds to increase (or decrease) capacity among state-funded beds and/or beds in private facilities based on the delta between its available beds (row F) and its projected inmate population in the following fiscal year (row G).

Table 6: Fiscal Year 2025-2026 November Caseload Request

		Male Bed Count	Female Bed Count
A	Current Funded State Bed Capacity	12,508	1,378
B	Voluntary Transgender Unit (Male Unit) Integration Unit (Female Unit)*	100	48
C	Beds Offline Due to Maintenance Projects	(166)	0
D	State General Population Beds Online (A+B+C)	12,442	1,426
E	Less 2.5% Vacancy Rate (D * 0.025)	(311)	(36)
F	Subtotal Available State Beds (D+E)	12,131	1,390
G	FY 2026 Average Daily Population Projection	15,443	1,320
H	Bed Need (G-F)	3,312	(70)
I	Current Funded Private Prison Beds	2,881	0
J	**Bed (Shortfall)/Surplus (I-H)**	**(431)**	**70**

Source: Based on information contained in Colorado Department of Corrections, Fiscal Year 2025-2026 R-01 Caseload Request, Tables 5 and 6

*The Department separately tracks beds that are dedicated to housing transgender inmates. The Fiscal Year 2023-2024 Long Bill appropriated funds to open two housing units, one at the Sterling Correctional Facility (which houses males) and one at the Denver Women's Correctional Facility. Per the Department's relevant Fiscal Year 2024-2025 decision item in the November 1 Executive Budget Request, Sterling houses transgender male inmates and "those who may feel threatened due to their gender identify." Denver Women's "houses newly arriving transgender female inmates and those scheduled for or recovering from surgery."

To estimate its projected average daily population (in row G of Table 6), the Department relies solely on DCJ inmate population forecasts described in the introduction to this chapter. DCJ's forecasts project the number of male and female inmates under Department jurisdiction on the last day of each quarter (inclusive of inmates held outside a state or private prison facility, for example, awaiting transfer from a county jail or in a residential transition program). To estimate the number of male and female inmates it will need to house in the next fiscal year, the Department averages the total forecasted inmate population on June 30 of the following two years. The Department then adjusts the male and female average forecast figure downward to account for a percentage of inmates not being held in a prison facility.

Table 7 illustrates the Department's approach to calculating its Fiscal Year 2025-2026 projected average daily projection, which it prepared in July 2024. The percentages applied to Rows B and E reflect the rolling average percent of inmates held outside a state or private prison facility in the last three months before the caseload request was prepared (estimated by the Department to be 8 percent of male inmates and 15.5 percent of female inmates in this example).

Table 7: Projected Average Daily Population for Fiscal Year 2025-2026 Based on DCJ Forecasts

		June 30, 2025	June 30, 2026
Male Population			
A	DCJ Forecast	16,534	17,037
B	Adjusted for Inmates Outside Prison Facilities (A x 92%)*	15,211	15,674
C	FY 2026 Average Daily Population Projection (Average Row B Figures)	15,443	
Female Population			
D	DCJ Forecast	1,538	1,585
E	Adjusted for Inmates Outside Prison Facilities (D x 84.5%)*	1,300	1,340
F	FY 2026 Average Daily Population Projection (Average Row E Figures)	1,320	

Source: Based on information contained in Colorado Department of Corrections, Fiscal Year 2025-2026 R-01 Caseload Request, Tables 3a and 4b

* The calculations in Rows B and E use Department estimates of the percentage of the population that is likely to be housed in a facility, based on historical trends.

Based on its calculated bed shortfall (shown in Table 6), the Department determines how many more beds it needs to staff and operate to accommodate the shortfall. In the Table 6 example from the Fiscal Year 2025-2026 budget cycle, the Department determined it would need 431 more male beds than it currently had available and funded. Although the male inmate population was projected to exceed capacity by 431 inmates, the Department requested funds to open 427 beds in Fiscal Year 2025-2026 (and did not acknowledge this discrepancy in the caseload request).

In Fiscal Year 2025-2026, the Department also determined it had excess capacity of 70 female beds; in some years, excess capacity may prompt the Department to request a reduction in funds to decrease the number of beds available. However, the Department did not request a reduction in funds to close any female beds. Instead, it requested to sustain its funding to keep those beds open because it had not previously requested funds in Fiscal Year 2024-2025 to increase capacity when it relocated female inmates to accommodate the new Transitional Unit for transgender female inmates.

The Department calculates the budget for its caseload request through two methods, depending on which facilities the Department chooses to increase or decrease its capacity to house inmates. There are a number of factors that determine whether the Department requests funding for state-owned or private facilities. One common reason the Department requests funds to increase capacity in private facilities is that it may need to house more medium security inmates than state facilities can accommodate (and private facilities have medium security beds).

- **State-owned prison facilities**: The Department estimates several costs to house inmates in state prisons: (1) one-time per-inmate costs such as mattresses, blankets, clothing, and a drug test; (2) personnel costs (e.g., salary and benefits) for the staff in the affected housing unit(s); (3) one-time per-FTE costs such as basic training, uniforms, and telephone; and (4) incremental changes in operating costs that it believes may be affected by changes in caseload (e.g., utilities, maintenance, laundry, food service).
- **Private prison facilities:** The Department estimates two types of costs to house newly admitted inmates in private facilities: one-time per-inmate costs for clothing and drug-testing on intake, and ongoing per-inmate per diems paid to the private facility.

Table 8 provides an example from the same Fiscal Year 2025-2026 caseload request submitted in November 2024 to demonstrate how the Department presents these costs to the Joint Budget Committee (JBC).

Table 8: Fiscal Year 2025-2026 November Caseload Request Summary

	State Beds	Private Beds	Total
Beds Requested	*200*	*227*	*427*
One-Time per Inmate Costs	$68,133	$54,464	$122,597
One-Time per FTE Costs	$45,280	n/a	$45,280
Personnel Costs (Salary and Benefits)	$1,194,256	n/a	$1,194,256
Operational Costs	$1,336,104	n/a	$1,336,104
Private Bed Cost	n/a	$5,511,515	$5,511,515
Total	**$2,643,773**	**$5,565,979**	**$8,209,752**

Source: Based on information contained in Colorado Department of Corrections, Fiscal Year 2025-2026 R-01 Caseload Request, Tables 9, 11, 12, 13, and 14, and detail on page 11

What work was performed and what was the purpose?

PFM reviewed the Department's initial and supplemental caseload requests for Fiscal Years 2022-2023 through 2025-2026 and related requests for information, questions posed by JBC members and staff, and Figure Setting documents. We reviewed the Department's administrative regulations and procedures related to its budget process (e.g., 100-02 Budget Preparation Procedures), its budget calendar, annual guidance provided by OSPB, and its long-range financial plans. We also reviewed multiple years of DCJ and LCS population projections and the 2013, 2016, and 2021 Prison Utilization Studies performed by a third-party expert on behalf of the Department.

We interviewed staff across numerous divisions of the Department and in the JBC and OSPB, and we attended an internal Bed Planning Committee meeting. We also reviewed Department data related to average daily population, bed capacity, and classification levels. This includes data that the Department produces for internal use and data that is published on its website for public consumption.

PFM also reviewed guidance produced by nationally recognized corrections and budgeting experts for common and recommended budget approaches, as defined by industry experts and researchers. This consisted of information from the following national sources plus research and evaluations conducted for specific states.

- Federal agencies including National Institute of Corrections, Bureau of Justice Statistics, and Government Accountability Office
- Council of State Governments
- Government Finance Officers Association
- National Association of State Budget Officers
- National Conference of State Legislatures
- Vera Institute of Justice

To supplement available research, PFM leveraged Correctional Leaders Association (CLA) survey responses from 21 state corrections departments and interviews with 8 of those respondents.

The purpose of this work was to determine how the Department develops its caseload requests and the variables and information that inform them and compare the Department's processes to best practices and common practices among state corrections departments.

What problems did the work identify, how were they measured, and why did they occur?

PFM found that while the Department incorporates some best and standard practices when developing its budget requests, its overall approach to estimating its caseload-related costs for budget requests fundamentally differs from methods used in other jurisdictions.

It is important to first understand that there are two key assumptions that guide the Department's approach to developing its budget for housing inmates and then managing to that budget:

1. The Department will maintain a prison budget that closely aligns with the number of projected inmates in a fiscal year and few beds will be funded but empty.
2. The Department will request adjustments to its budget appropriation and open and close individual housing units throughout the fiscal year to align with the number of projected inmates.

These assumptions create an underlying philosophy that drives the Department's approach to budgeting and managing its facilities and the JBC's consideration of its budget requests. However, these two assumptions differ from many other states' approaches to budgeting for corrections. In other states, corrections departments (1) do not adjust their capacity and budget to reflect relatively small population changes (particularly downward); (2) do not use population projections to budget for a specific number of beds in specific facilities; and (3) do not use a vacancy rate for budgeting purposes. Each of these differences are described below.

Use of Population Projections to Make Frequent Budget Adjustments

The Department relies heavily on DCJ inmate population forecasts to request biannual incremental adjustments to its budget, which prompts the Department to make relatively small changes to available bed capacity. The Department's frequent budget requests to open and close a small number of beds are minimal in light of the full system's capacity and this process is operationally inefficient. For example, between June 2022 and March 2025, the Department's inmate population in its correctional facilities increased by a compound annual growth rate (CAGR) of 2.1 percent, or 975 people out of a 2022 population of 15,000. During that time, the Department requested funds to change its total capacity for the male population at least six times. Four of the requests represented a change of approximately 2 percent or fewer of male beds each time.

Table 9: Requests for Funds for Male Beds in State-Run and Private Facilities

Budget Cycle	Caseload Request Type	Funded Beds at Request*	Requested Bed Change	Request as % of Funded
FY 2023-2024	November Request	14,326***	0	0%
FY 2023-2024	January Supplemental	14,745***	842	5.7%
FY 2024-2025	November Request	15,449	353	2.3%
FY 2024-2025	January Supplemental	15,444	-326	-2.1%
FY 2024-2025**	January Supplemental	15,429	-322	-2.1%
FY 2025-2026	November Request	15,323	427	2.8%
FY 2025-2026**	January Supplemental	15,429	196	1.3%

Source: Colorado Department of Corrections Budget Requests
Note: These numbers represent only requests made by the Department, *not* actual changes in capacity, and do not reflect every caseload request made in these years. The reader should not expect to calculate a fiscal year's funded bed count by summing the prior year count and requested bed change.
*Defined as Funded State Bed Capacity (inclusive of Voluntary Transgender Unit in Fiscal Years 2024-2025 and 2025-2026) minus Beds Offline for Maintenance Projects plus Current Funded Private Prison Beds.
**This supplemental request *replaced* the November request. The Department proposed to close 322 beds in the current fiscal year (2024-2025) and reopen 196 of those in Fiscal Year 2025-2026.
***Based on Operational Facility, as provided in July 2023 and December 2023 Monthly Population and Capacity Reports, because relevant information was not provided in the caseload request.

This is a long-standing approach, used by the Department, and expected by the JBC, intended to maintain a caseload-related budget that closely aligns with the number of DCJ-forecasted inmates in a fiscal year. All eight of the states PFM interviewed said that while they may make the operational decision to close a unit in response to a population decrease, they never decrease their budget in response to population changes unless an entire facility is closed. If a unit is closed, the staff are shifted to cover other vacancies, and typically the variable operational costs are reallocated. Similarly, an increase in population does not drive budget changes unless it necessitates opening a new wing (which contains multiple housing units) or an additional facility.

Rather than rely solely on projected changes in caseload (i.e., population), a more common approach among state corrections departments is to budget personnel and operational expenses for an entire facility based on full staffing and historical expenditures. The states then request incremental increases each year to account for changes related to compensation, the effects of new legislation, inflation, contract costs, and utilities. These states monitor population projections and trends to determine whether more substantial changes need to be made (e.g., increasing capacity by funding more beds).

Of the 21 states that responded to PFM's survey of the Correctional Leaders Association (CLA):

- Fourteen said they use staffing levels and/or contracted service costs in addition to estimated caseload to prepare their budget.
- Seven said they do not use caseload at all, instead developing their budget requests using staffing levels and contracted service costs, or other factors.

Vacancy Rate

The Department applies a 2.5 percent vacancy rate to male and female inmate population projections when developing its caseload request. We found, however, that while the Department budgets for a systemwide vacancy rate of 2.5 percent, the actual vacancy rate for individual security classification levels varies significantly, with some vacancy rates substantially below the 2.5 percent budgeted rate. For example, as shown in Table 10, in October 2025, the Department's systemwide vacancy rate was over 4 percent for males and 6 percent for females, which meant that it had more flexibility to house inmates than it was budgeted for. However, that systemwide rate did not reflect limited capacity in Level III (Medium Security) and Level IV (Medium to Close Custody) beds, which had vacancy rates of only 1.8 percent and 0.9 percent, respectively.

Table 10: Vacancy Rates by Classification Levels, October 2024

Classification Level/ Bed Type	Male Beds			Female Beds		
	Funded Capacity	Total Inmates*	Vacancy Rate	Funded Capacity	Total Inmates*	Vacancy Rate
Level I (Minimum Custody)	699	565	19.2%	0	0	n/a
Level II (Min.-Med. Custody)	2,137	2,021	5.4%	216	215	0.5%
Level III (Medium Custody)	8,508	8,358	1.8%	695	672	3.3%
Level IV (Med.-Close Custody)	1,283	1,272	0.9%	138	147	-6.5%
Level V (Close Custody)	558	521	6.6%	32	17	46.9%
Clinical Beds	1,316	1,153	12.4%	241	191	20.7%
Status Beds**	949	902	5.0%	16	14	12.5%
Total	**15,450**	**14,792**	**4.3%**	**1,338**	**1,256**	**6.1%**

Source: Colorado Department of Corrections, Vacancy by Unit Type / "Blue Report," October 17, 2024
* Includes inmates in restrictive housing, intake, and the infirmary; 100 Level II male beds and 70 Level III male beds were considered funded, but not "utilized" (or "turned on") on this date.
** Per the Department's definition, status beds are "designated to manage specialized populations on a temporary basis with the exception of protective custody, which can be permanent. Status beds also include placement for violent, dangerous, and disruptive inmates in Management Control Comprehensive, Management Control High Risk, Management Control Unit, and Close Custody Transition Unit."

Table 11 provides an estimate of how many beds would be needed for each classification level to maintain a consistent 2.5 percent vacancy rate based on a snapshot of the Department's inmate population in October 2024. Please note, this calculation is provided only to demonstrate the misalignment among classification levels at a single point-in-time and should not be extrapolated to suggest how many beds the Department needs to manage its population over a fiscal year.

Table 11: October 2024 Funded Capacity and Population by Classification Level, Male and Female Population

Classification Level	Total Inmates*	Population w/ 2.5% Vacancy Rate	Funded Capacity	Difference Funded minus Pop. w/ 2.5%
Level I (Minimum Custody)	565	579	699	120
Level II (Min.-Med. Custody)	2,236	2,292	2,353	61
Level III (Medium Custody)	9,030	9,256	9,203	-53
Level IV (Med.-Close Custody)	1,419	1,454	1,421	-33
Level V (Close Custody)	538	551	590	39
Clinical Beds**	1,344	1,378	1,557	179
Status Beds	916	939	965	26

Source: Colorado Department of Corrections, Vacancy by Unit Type / "Blue Report," October 17, 2024
* Includes inmates in restrictive housing, intake, and the infirmary; 100 Level II beds and 70 Level III beds were considered funded, but not "utilized" (or "turned on") on this date.
** Includes 146 beds held for the Voluntary Transgender Unit and Integration Unit (110 vacant beds on this date).

Although the Department stated that budgeting with a 2.5 percent vacancy rate does not offer sufficient operational flexibility to manage its population, it has not proposed a well-analyzed and defended alternative vacancy rate to the JBC. The Department selected 2.5 percent because it was higher than the previously used vacancy rate of 2 percent but has not offered analysis to justify why it selected that rate or why a higher rate is needed.

According to budget documents, the Department budgeted with a 2 percent vacancy rate for budget requests for Fiscal Years 2016-2017 through 2020-2021. It then increased the rate to between 7.775 percent and 10 percent for males and 7.775 percent and 13.2 percent for females during Fiscal Year 2021-2022 to provide sufficient funds to open and staff more beds to allow space to separate inmates for quarantine protocols in response to COVID-19. The Department then budgeted with a lower vacancy rate of 2.5 percent for males in Fiscal Year 2022-2023 and for females the following year.

The Department's use of a systemwide vacancy rate of 2.5 percent for budgeting purposes falls at the low end of the range identified by the third-party experts it hired to complete a prison utilization study in 2013, with updates in 2016 and 2021. The 2013 Prison Utilization Study stated, "most correctional systems attempt to maintain a 5 percent vacancy rate to provide enough management flexibility," and the 2021 update to that study said, "most correctional systems set a goal of keeping a minimum of 2 percent of operational capacity vacant as a recognized best practice."

There is no industry standard for vacancy rates because the needs of each jurisdiction are unique. In fact, we found that many state corrections departments do not use a vacancy rate for budgeting purposes. Specifically, 16 of the 20 respondents who answered a relevant question on our survey of state corrections departments said they do not use a vacancy rate, while the other four said they do. Of those four that use a vacancy rate, the two that provided specifics set rates that range from 3 to 5 percent of total capacity. In follow up interviews with PFM, all eight states that we spoke with affirmed that they do not use a vacancy rate or any other population factor in the budgeting process. They do, however, track where vacant beds are as a population management tool.

If the Department wants to budget using a population management rate other than a systemwide vacancy rate, the National Institute of Corrections (NIC) suggests two factors that can be applied to inmate population projections to more accurately estimate bed demand: peaking factor and classification factor. NIC notes that "there is no one percentage or number that will work for every jurisdiction…as each jurisdiction is unique.[15] While conceptually similar to a vacancy rate (i.e., projects a number of beds needed for management purposes), peaking and classification factors rely on actual average daily population (not projected); a classification factor also takes into consideration population characteristics. Once calculated, these factors are added to the inmate population projection figure.

- A **peaking factor** accounts for unanticipated spikes in population. It is calculated by averaging the three highest ("peak") population counts over 12 months, summing those averages, and dividing the sum by 12 to obtain the average peak for the year.

- A **classification factor** takes into account the flexibility needed to separate populations by characteristics such as gender, risk level, mental health, physical health, and disciplinary segregation. Just as there is no single percentage that will work for every jurisdiction, NIC states there is no singular formula that can assure a jurisdiction that it will build space for just the right number of additional beds. NIC suggests jurisdictions might apply a specific number to each different classification category or apply different numbers to different categories. The decision must be guided by the size of the facilities, mix of classification levels within each facility, and types of housing units used in each facility.

Alternatively, state statute specifies vacancy rates that the Department could consider in determining the proportion of excess beds to factor into its caseload requests. Section 17-1-119, C.R.S., requires the Department to "track the [actual] prison bed vacancy rate in … prison beds on a monthly basis." If the vacancy rate falls below 3 percent for 30 consecutive days, the statute directs the Department to (1) seek available beds in community corrections and (2) expedite efforts to

[15] All definitions and references to these terms are sourced from Bennett, David M. and Donna Lattin. (2009, November). *Jail Capacity Planning Guide: A Systems Approach*. Washington, DC: National Institute of Corrections, pages 45-56.

parole eligible inmates, and to continue such efforts until it reaches a vacancy rate above 4 percent for 30 consecutive days. These requirements were established in 2018 as a way to help the Department manage Colorado's rising prison population.

Why do these problems matter?

The Department's methodology for estimating its caseload-related costs and developing funding requests leads the Department to make multiple requests to adjust capacity each year, which undermines the Department's credibility. When the Department submits a supplemental request to reduce funds and close beds in the fourth quarter of the fiscal year (once the Long Bill is passed), it assumes savings that may not be realistically achievable within the short timeframe (see Finding 3 for more information on estimating operating costs). It is also inefficient for the Department to move staff and inmates based on frequent adjustments.

It is a best practice to limit the number of open units and beds to those that are truly needed to manage the population as a way to control costs. However, frequent unit openings and closings based on funding, particularly closures, are disruptive to staff, operations, and inmates and their families. This is particularly inefficient when the changes are short-term, such as when the Department closes beds in the fourth quarter of the fiscal year, only to reopen and repopulate those beds in the first quarter of the next fiscal year. For example, the Department's Fiscal Year 2024-2025 supplemental budget request proposes to close 96 beds at the Delta Correctional Facility for the fourth quarter because the DCJ Winter forecast projected fewer inmates by fiscal year end than had been budgeted for, and then reopen the beds at the start of the next fiscal year because the Winter forecast projected more inmates by the end of the new fiscal year.

When the Department makes these frequent changes, there are costs related to opening and closing units and transferring inmates and staff among facilities that are not accounted for in the current budget process. Beyond the costs of transportation and the staff time for transport, there is the potential for the Department to lose staff by moving them among facilities, which are spread around the state. Such changes may induce staff to seek jobs outside the Department due to uncertainty about their employment situation.

Inmates are also impacted by relocation to other facilities. While some amount of "prison transiency" is common in correctional systems, frequent movement or disruption of access to programming or connection to family members can negatively impact an inmate's rehabilitation.

It is important to note that, while there is significant focus on how many beds the Department should open and close each fiscal year, its caseload requests are only a fraction of its total budget. For example, in its Fiscal Year 2025-2026 initial caseload request, the Department requested $8.2 million to open 427 beds, which represented only a 3.0 percent increase in funded capacity and equated to less than one percent of its total General Fund allocation.

This finding does not address the need for a strategic conversation about longer-term population management, aging facilities, and institutional capacity. The state is unprepared to address DCJ's forecast that inmate population is going to reach a level that exceeds both state and private facility capacity within five years. Our evaluation did not include assessing the Department's or the State's strategies to address these larger, longer-term challenges. It takes significant time and coordination with other state departments to make and implement decisions to (1) renovate existing facilities; (2) build new facilities; and/or (3) reduce prison population.

Recommendation No. 1

The Department of Corrections (Department) should improve its annual budget process by replacing its current caseload-driven budgeting approach with an approach that produces a more consistent level of funding and minimizes mid-year capacity changes. Specifically, the Department should:

A. Establish a new baseline budget that relies on historical expenditures, staffing levels dictated by the most recent staffing plan for each facility, current non-facility staffing levels, and projected increases or decreases in costs and less on population projections and a vacancy rate.

B. Establish a consistent bed capacity that can accommodate population fluctuations and some growth within each classification level. The information needed to establish this includes: each facility's design capacity by classification level, beds not available for permanent placement due to maintenance or use for temporary and restrictive housing, historical and projected average daily population by classification level, current staffing levels, and facility staffing plans.

C. Determine from the analysis in Part A whether any facilities or wings of facilities may remain unstaffed and unpopulated for at least one year.

D. Using an approach similar to its current practices, determine how many beds should be budgeted in private facilities based on the Department's analysis of historical and projected population by classification level.

E. Calculate personnel and operating expenses based on staffing plans and historical expenditures. Each year, the Department should work with the Governor's Office of State Planning and Budgeting to adjust this calculation based on expected personnel vacancies, use of staffing contracts, and other anticipated changes in costs.

F. Make caseload requests that reflect the marginal increase of variable costs, such as food, laundry, and inmate intake.

Department of Corrections Response:

A. Agree

Implementation Date: November 1, 2026

The Department looks forward to establishing a new baseline budget and caseload method during the FY 2025-26. The Department agrees with the findings in the audit, particularly around how other "corrections departments (1) do not adjust their capacity and budget to reflect relatively small population changes (particularly downward); (2) do not use population projections to budget for a specific number of beds in specific facilities; and (3) do not use a vacancy rate for budgeting purposes." In addition, we appreciated the information that other departments "budget personnel and operational expenses for an entire facility based on full staffing and historical expenditures. The states then request incremental increases each year to account for changes related to compensation, the effects of new legislation, inflation, contract costs, and utilities. These states monitor population projections and trends to determine whether more substantial changes need to be made (e.g., increasing capacity by funding more beds)."

Based on the information supplied in the report, the Department will submit a plan to the Governor's Office in the summer of 2026. With their help, we would like to have the new budget be part of the November 1, 2026 submission.

B. Agree

Implementation Date: November 1, 2026

The Department clarified with the auditors that this is the maximum capacity the Department can physically hold and safely supervise for each classification level for the year, knowing that the daily number of beds may fluctuate. The Department agrees with this recommendation. The Department is updating the monthly population and capacity bed report, expanding monthly reporting features that clarify classification level, temporary use beds, and beds off-line. The department will also develop reporting on current staffing levels and facility staffing plans, accounting for security levels. This will be in accordance with 17-1-104.3 and other relevant statutes if necessary.

The Department will submit a proposal to the Governor's Office in the summer of 2026 to address population fluctuations, classification levels, and staffing plans. With their help, we would like to have the maximum bed capacity to inform the November 1, 2026, Governor's budget submission.

C. Agree

Implementation Date: November 1, 2026

We agree, and the Department endeavors, to determine whether any facilities or wings of facilities may remain unstaffed and unpopulated for at least one year. This will allow us to address one of the findings in the document, particularly that "frequent unit openings and closings based on funding, particularly closures, are disruptive to staff, operations, and inmates and their families. This is particularly inefficient when the changes are short-term, such as when the Department closes beds in the fourth quarter of the fiscal year, only to reopen and repopulate those beds in the first quarter of the next fiscal year." Limiting movement, as indicated by the report, will help out both staff and inmates alike.

We do want to caution that, due to our aging facilities, emergencies occur that cause us to move populations. In addition, drastic changes in staffing, like those that occurred during COVID, may force the Department to make changes to previously projected beds.

The Department will submit a proposal to the Governor's Office in the summer of 2026 to address population fluctuations, classification levels, and staffing plans. With their help, we would like to have the bed capacity, including unstaffed and unpopulated beds, to inform the November 1, 2026, Governor's budget submission.

D. Agree

Implementation Date: November 1, 2026

The Department agrees with this recommendation to ensure a more consistent level of funding for private beds. However, we would like to note that in FY 2025-26, the Department will have to re-negotiate our private prison contract, in accordance with the procedures in 17-1-202 and state procurement rules. This may lead to changes in the cost per bed of private facilities. Final decisions will be based upon conversations with the Governor's Office as well as negotiations with the private prisons. This may include a minimum number of beds to fund for private facilities.

E. Agree

Implementation Date: November 1, 2026

The Department agrees with this recommendation. The Department will start working with the Office of State Planning and Budgeting to begin to adjust personnel costs in the summer of 2025. The Department will submit a proposal to the Governor's Office in the summer of 2026 to calculate personnel and operating expenses based on staffing plans and historical expenditures. With their help, we would like to have the analysis inform the November 1, 2026, Governor's budget submission.

F. Agree

Implementation Date: November 1, 2026

The Department agrees with this request, and will submit a plan to the Governor's Office in the summer of 2026. With their help, we would like to have the new budget be part of the November 1, 2026 submission.

Finding 2 – Budgeting for Personnel Costs

The Department utilizes historical data and/or staffing plans to develop the personnel component of its funding requests. Each of the Department's 19 correctional facilities has a staffing plan, which identifies every post needed in a correctional facility to maintain security, provide necessary services, and manage operations for each shift and each day of the week. A post is an established assignment within a correctional facility that is often assigned to a physical location in the facility and/or a specific job.

Staffing plans are considered the minimum staffing levels needed to manage safe operations at a facility. Staffing is based on "classification of inmates and the security level of the physical plant in which they are housed," not a staff-to-inmate ratio.[16] Staffing plans are specific to each facility and are tailored to the physical layout and classification level of inmates housed there. For example, a higher security facility requires more staff for supervision in housing units and for managing inmate movement. In addition to corrections officers, positions are allocated to each prison for administration, food service and laundry, programs and education, and maintaining the physical plant.

To translate the number of posts in a staffing plan to FTE for the budget request, the Department assigns a shift relief factor to each post. Many government services, including corrections, policing, and some medical professions use an established methodology for calculating a "shift relief factor" to determine the number of FTE that must be employed in order to provide continuous coverage for each relevant post. A shift relief factor calculates the total number of hours of staff coverage required to cover a post, divided by the total number of hours one employee (FTE) will actually work in a year.[17] When the factor is higher than one, it means that more than one FTE is needed to cover that post full time (either with additional staff or overtime).

To illustrate this, consider if each employee works at their post 40 hours per week with no days off, each employee will work 2,080 hours per year. However, each employee will actually work some amount less than that the 2,080 hours per year depending on the number of days of paid or unpaid leave they take, and the number of required annual trainings or other duties that take them away from the post, during which another employee would need to be staffed on that post to ensure

[16] Colorado Department of Corrections, communication to PFM, November 7, 2024. The Department's decision to not use a staff-to-inmate ratio is supported by the National Institute of Corrections, which states in its staffing analysis resource guide, "The use of staff-to-inmate ratios in staffing analysis generally is not recommended. In nearly all instances, ratios of staff to inmates creates more confusion and problems than it solves. The one exception is in the area where PREA requires minimum staffing in secure juvenile facilities." Department of Corrections, "Staffing Analysis Handouts," excerpted pages from National Institute of Corrections' *Staffing Analysis Implementation Project Resource Documents* provided to PFM, December 17, 2024.

[17] National Institute of Corrections (NIC). (2008, December). *Prison Staffing Analysis: A Training Manual*. Washington, DC: NIC, page 39.

continuous coverage. For more than 25 years, the Department has applied a 1.6 shift relief factor for correctional officer posts, meaning the Department needs 1.6 FTE to provide continuous coverage of each post during each 8-hour shift.

The Department is currently receiving technical assistance from NIC to update its staffing plans for each of its 19 facilities and the shift relief factor applied to each post based on NIC's criteria and guidance.[18] As of April 2025, the Department was updating the staffing plan for its seventh facility (Fremont Correctional Facility) and was developing a schedule to complete the remaining 12 facilities by the end of the calendar year.[19]

The Department must also estimate shift differential costs when preparing the personnel component of its budget requests. Shift differential is a premium pay differential paid to certain job classifications, specifically correctional officers in the corrections environment. The differential is a percentage increase in base pay paid for working certain shifts, typically those that are viewed as less desirable. The 2022 Colorado Workers for Innovative and New Solutions Local 1876 (COWINS) Partnership Agreement increased the percentage applied to third shift (i.e., night shift) and weekend shifts.[20] Table 12, which is based on an excerpt from a JBC working document, details the shift differential changes for the Department's eligible job classes. Of note, shift differential premiums increased by four percentage points for third shift and doubled for weekend shifts.

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[18] The National Institute of Corrections is a federal agency that provides corrections-related training, research and other resources to local, state, federal, and tribal corrections agencies.

[19] The Department has completed updated staffing plans for Centennial Correctional Facility; Denver Reception and Diagnostic Center; Denver Women's Correctional Facility; La Vista Correctional Facility; Sterling Correctional Facility; and the Youthful Offender System. The Youthful Offender System is the name of a correctional facility that houses both males and females as juveniles and young adults ranging from 14 to 19 years of age.

[20] Colorado Workers for Innovative and New Solutions Local 1876 (COWINS) is the certified employee organization for covered Colorado State employees. The State and COWINS negotiated a Partnership Agreement (i.e., collective bargaining agreement) for covered employees in 2021 and addressed wages in 2022. A renegotiated agreement went into effect September 23, 2024.

Table 12: Comparison of Shift Differential Premiums (Non-Health Care Service Classes)

Shift	Description	State Compensation Plan FY 2019-20 through FY 2021-22	Current DOC Policy 1450-14 (per 2022 Partnership Agreement)
Second Shift	If one-half or more of the hours scheduled fall between the hours of 4:00 p.m. and 11:00 p.m., Monday through Thursday	7.5%	7.5%
Third/Night Shift	If one-half or more of the hours scheduled fall between the hours of 11:00 p.m. and 6:00 a.m., Monday through Thursday	10.0%	14.0%
Weekend Shift	If one-half or more of the hours scheduled fall between the hours of 4:00 p.m. Friday evening and 6:00 a.m. Monday morning	10.0%	20.0%

Source: Based on information contained in Joint Budget Committee Working Document, Staff Figure Setting Fiscal Year 2024-2025, Department of Corrections

The Department estimates its shift differential costs and other POTS (compensation common policy) line items for the following fiscal year based on a POTS template it receives from DPA as it prepares its budget submission to OSPB in August.[21] While DPA provides a formula to calculate most POTS line items, departments with shift differential costs insert their actual prior year expenditures in the POTS template, which are then carried into the next fiscal year at the same amount.

What work was performed and what was the purpose?

To evaluate the Department's budgeting practices for personnel costs, PFM reviewed the Department's initial and supplemental budget requests for Fiscal Year 2022-2023 through Fiscal Year 2025-2026 and related requests for information, questions posed by the JBC, and Figure Setting documents. We reviewed the Department's FTE calculation spreadsheets for each budget request, including the annual pay plans it receives from the Department of Personnel & Administration. We also reviewed a "vacancy savings" spreadsheet that the Department's Budget

[21] POTS line items (not an acronym) refer to compensation common policy line items that are generated through department total compensation templates and are calculated based on prior July's actual payroll data with adjustments for known and anticipated staffing increases or decreases. POTS line items include, among other items, shift differential.

and Business Operations unit developed to track its projected personnel expenditures.[22] Finally, we reviewed the Department's staffing plans for its 19 state correctional facilities.

PFM interviewed Department staff and met virtually with the Department's Prison Operations team to review and discuss its recent work with the National Institute of Corrections to update its staffing plans and its shift relief factor.

PFM also reviewed guidance and best practice information produced by corrections and budgeting experts related to calculating personnel costs from the following organizations:

- Federal agencies including National Institute of Corrections, Bureau of Justice Statistics, and Government Accountability Office
- American Staffing Association
- Council of State Governments
- National Association of State Budget Officers
- Vera Institute of Justice

To supplement available research, PFM leveraged Correctional Leaders Association (CLA) survey responses from 21 state corrections departments and interviews with 8 of those respondents.

The purpose of this work was to evaluate how the Department determines its personnel needs (the number and type of FTE requested, and justification for that number) and how it develops its related budget request (which estimates the cost of the requested FTE) to determine if the Department's budgeting practices are consistent with best practices for correctional agencies.

What problems did the work identify, how were they measured, and why did they occur?

PFM's review of the Department's budgeting practices found that the Department does not request the number of staff needed to account for continuous staffing coverage in its facilities (although it knows more staff are needed) and it does not estimate and request sufficient funds to cover its actual personnel expenditures. Instead, the Department has used savings from unfilled positions to cover the unbudgeted costs.

The following discussion covers three aspects of the Department's budgeting practices related to personnel costs where we identified issues: (1) the number of FTE needed and requested; (2) compensation costs of requested FTE; and (3) the use of vacancy savings to cover its shortfall in other personnel spending categories.

[22] Colorado Department of Corrections, "DOC FY 2024-2025 Oct Vacancy Savings" provided to PFM, December 27, 2024.

Personnel Needs: Shift Relief Factor

The Department currently budgets using a shift relief factor of 1.6 for an eight-hour shift that it reports has not been updated in more than 25 years. Because the Department's shift relief factor of 1.6 is outdated, it does not account for how work patterns have changed over time. In recent years, employees are allowed, and are taking, more paid time off, in part due to increases in annual leave accrual rates and the implementation of the State's paid Family Medical Leave Insurance Program (FAMLI). As a result, based on the Department's recent calculations, this outdated shift relief factor underestimates the Department's correctional officer staffing needs by approximately 10 percent.

Rather than use an updated shift relief factor when developing its budget requests to address its actual FTE needs and communicate its methodology for calculating this FTE amount, the Department has used overtime and vacancy savings to ensure continuous coverage. Based on the technical assistance received from NIC, the Department has calculated that its shift relief factor is actually 1.76, 10 percent higher than the relief factor the Department has used in all of its budget requests for more than 25 years.

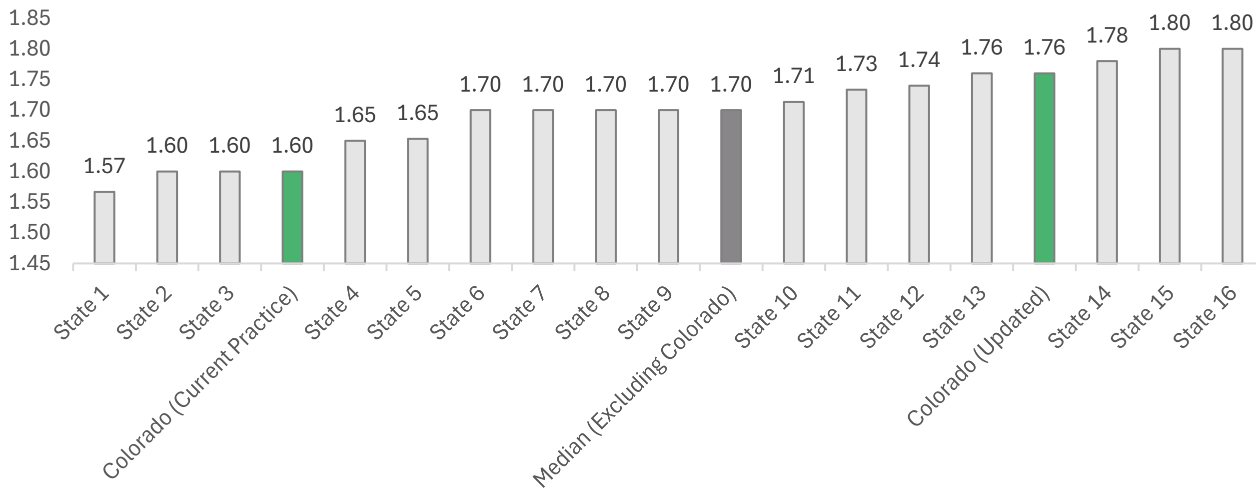
The use of a shift relief factor and the methods to calculate it are commonly accepted throughout the corrections industry, and public safety more broadly. To provide additional context, PFM compared the Department's 1.6 shift relief factor used in current practice and its updated shift relief factor to the state corrections departments that responded to the CLA survey.

All states that responded to a relevant question on the CLA survey stated that they use a shift relief factor for security-related positions (20 of 21 responding states answered the question). Sixteen of the respondents provided their current shift relief factor. As shown in Figure 4, the median shift relief factor for 8-hour posts requiring continuous coverage was 1.7 compared to the Department's current factor of 1.6.

The shift relief factor currently used by Colorado is equal to that of two responding states, tied for second lowest in the group (15th highest of 17). The revised shift relief factor that the Department has calculated, 1.76, would bring it to the upper quartile of the group, tied for 4th highest out of 17 states.[23]

[23] For states that provided shift relief factor for a 12-hour or 24-hour calculation, PFM adjusted the figures to show the 8-hour equivalent.

Figure 4: Shift Relief Factors Used by State Corrections Departments for Security-Related 8 Hr. Posts



Source: PFM Survey of Correctional Leaders Association

True Costs of Compensation

Shift Differential

The Department has not appropriately accounted for changes in the cost of shift differential when estimating personnel costs for budget requests. The Department did not request a meaningful increase in its shift differential line item until its Fiscal Year 2024-2025 budget request, although changes to the shift differential rates went into effect on July 1, 2022, following approval of the 2022 COWINS Partnership Agreement.

The Department has also not requested approval from OSPB or DPA to adjust its shift differential calculations in the POTS template that DPA provides for calculating personnel costs in the next fiscal year. By basing its shift differential on prior fiscal year expenditures, the calculation does not account for any across-the-board salary increases that may occur in the current or following fiscal year. For example, when preparing the Fiscal Year 2025-2026 budget request, the Department calculated its shift differential line item based on actual expenditures in Fiscal Year 2023-2024, which omitted salary increases made in Fiscal Year 2024-2025 and planned for Fiscal Year 2025-2026.

According to DPA and OSPB staff, many years ago (they were unable to pinpoint the precise year), DPA, OSPB, and the JBC agreed to use “prior year actuals” as the standard approach for the Department, while acknowledging it could create a lag in needed appropriations following policy changes. However, DPA also noted to PFM that, while departments can request special accommodations from DPA before their pay plan is finalized to account for these types of issues, the Department has never reached out to DPA to consider a different approach to calculating its shift differential costs. DPA shared an example of a different public safety department for which it had created a customized pay plan to accurately calculate personnel costs for certain positions, which suggests the Department could have better estimated its shift differential costs if it had made the request.

Because the Department has not requested additional funds for its increased shift differential costs, its shift differential expenditures have exceeded its appropriation since Fiscal Year 2022-2023: by $4.8 million in Fiscal Year 2022-2023 and $8.5 million in Fiscal Year 2023-2024.

In Fiscal Year 2024-2025, the Department requested a 90 percent increase in funding for shift differentials over the prior year request, or $21 million. In its assessment of the Department's request that year, JBC staff acknowledged the impact of the 2022 COWINS Partnership Agreement on expenditures since Fiscal Year 2022-2023, but the final appropriation was 14.3 percent less than the Department requested and 18.1 percent lower than the Department's projected actual expenditures as of October 2024.[24] The Department used vacancy savings to close the gap between the appropriation and actual expenditures in Fiscal Year 2023-2024 and is projected to do so again in Fiscal Year 2024-2025, although as noted below, vacancy savings no longer cover all of the Department's unbudgeted personnel expenditures.

Table 13: Shift Differential Appropriations and Expenditures, Fiscal Year 2019-20230 through Fiscal Year 2025-2026

Fiscal Year	Requested*	Appropriated	Actual Expenditures	Actual vs. Appropriation*
FY 2019-2020	$8,963,744	$9,264,502	$9,222,187	-0.5%
FY 2020-2021	$9,313,886	$8,938,772	$8,786,271	-1.7%
FY 2021-2022	$10,251,533	$10,251,533	$8,927,799	-12.9%
FY 2022-2023	$11,010,784	$11,010,784	$15,828,394	43.8%
FY 2023-2024	$11,047,379	$11,047,379	$19,604,729	77.5%
FY 2024-2025 (Projected)	$20,983,760	$17,982,314	$21,242,089	18.1%
FY 2025-2026	$22,273,865	n/a	n/a	n/a

Sources: "Requested" and "Appropriated" from Colorado Department of Corrections January Supplemental Schedule 00 Detail - Revised Appropriation Request; "Actual Expenditures" provided by Colorado Department of Corrections

*Positive value indicates actual expenditures were higher than appropriated amount.

In Fiscal Year 2024-2025, as of October 2024, the Department was projected to use vacancy savings to cover $3.2 million in shift differential costs that were not included in the Department's budget.

[24] Colorado Department of Corrections, "DOC FY 2024-2025 Oct Vacancy Savings" provided to PFM, December 27, 2024.

Contract Staff

The Department also does not request sufficient funds in its budget to cover the costs of its clinical and behavioral health positions, many of which are filled through staffing contracts. Although the Department has implemented hiring incentives for many of these positions and worked to convert contract staff to full-time employees, it has faced significant challenges filling these positions in the last four years. The Department's difficulties are similar to those faced by the Colorado Department of Human Services and corrections agencies across the country. As of November 7, 2024, the Department had 707 clinical and behavioral health positions across its 19 facilities and centralized services, and 209 of these positions, or 29.6 percent, were vacant.

Despite its persistent vacancies, the Department continues to budget for the personnel costs of all clinical and behavioral health positions as Department employees, even though it must use temporary contract staff to fill these positions, which are more costly. As shown in Finding 3, between Fiscal Years 2021-2022 and 2023-2024, the Department's actual expenditures for contracted clinical and behavioral health staff doubled due to persistent vacancies and an increase in rates to attract more candidates from the staffing agencies. The difference in cost between Department employees and contract staff was not included in the Department's November budget requests in these years. A contract employee costs more than a state employee due to hourly rates that are higher than the equivalent cost of salaries and benefits for state employees, in part because contract rates include overhead costs and profit for the staffing agencies. However, the Department does not include the higher cost of contract staff in its continuation budget or as a decision item. The Department told PFM that its goal is to hire state employees for all positions, and therefore, does not want to indicate with its budget that it plans to continue using contract staff at the current level. In Fiscal Year 2024-2025, as of October 2024, the Department was projected to use vacancy savings to cover $29 million in contract staff costs that were not included in the Department's budget.

Vacancy Savings

The Department uses excess funding from unstaffed FTE ("vacancy savings") to cover the costs of overtime and contracted clinical and behavioral health staff. In addition, the Department moves funding among related line items to cover costs, which reduces transparency, or asks for increases in funding later in the fiscal year, which raises questions about the need for its requests. These practices make it challenging to track the Department's true personnel expenditures and hold it accountable for managing to its budget.

The Department's significant staffing challenges and large number of unfilled positions during and following the COVID-19 pandemic created surplus personnel funds that could be used to address the Department's other staff-related needs, including staffing contracts and overtime costs.

In the Department's Fiscal Year 2024-2025 Figure Setting Document, the JBC analyst recommended against funding new correctional officer positions in light of the Department's vacancies in those titles. As long as the Department has had substantial vacancy savings and flexibility to leverage those savings to cover other personnel costs, it was a fiscally prudent decision to limit requests for additional positions and funds. However, as the Department has filled more of its correctional officer vacancies, its vacancy savings are no longer sufficient to cover its actual personnel costs.

The current fiscal year provides an example of how the Department's vacancy savings cannot address all of its personnel costs. At the end of October 2024, the Department projected its employee compensation costs, including PERA and Medicare, and other centrally appropriated personnel costs, would total $32.7 million less than its General Fund appropriation for Fiscal Year 2024-2025, primarily due to ongoing vacancies that have been budgeted for.[25] However, due to several personnel-related costs that will exceed their budgeted amount, this projected $32.7 million in savings is unlikely to occur. Instead, the Department projected in October that its total personnel costs, inclusive of staffing contract costs, would exceed its personnel appropriation by $4.1 million. Barring any changes, the Department would likely need to request supplemental funds to cover the actual costs.

The Department's data shows an improvement in hiring and separations, which has resulted in fewer vacancies, particularly among correctional officers. However, the Department does continue to face challenges in staffing clinical and behavioral health positions and hiring for more remote facilities.

Based on Department data, its total number of budgeted positions changed only slightly between June 2022 and November 2024 (from 6,801 to 6,820). However, due to increased hiring and fewer separations, the Department's staff vacancy rate has decreased.

In Fiscal Year 2023-2024, the Department saw 73.8 percent more *new hires* compared to Fiscal Year 2021-2022, and 32.4 percent fewer *separations* compared to the same period.[26] Between June 2022 and November 2024, the Department increased its number of filled correctional officer positions by a CAGR of 5.1 percent. Its increase in filled non-correctional officer positions was smaller – a CAGR of 2.2 percent. Non-correctional officer vacancies remained high at 18.6 percent of budgeted positions in November 2024.

[25] Colorado Department of Corrections, "DOC FY 2024-2025 Oct Vacancy Savings" provided to PFM, December 27, 2024.
[26] Colorado Department of Corrections, "Position Status History FY 22-24" provided to PFM, November 19, 2024.

Table 14: Department Filled and Vacant Positions (FTE), Last Day of Fiscal Year 2021-2022 – Fiscal Year 2024-2025

	FY 2021-2022	FY 2022-2023	FY 2023-2024	FY 2024-2025*	FY 2022-2025 CAGR**
Correctional Officers					
Budgeted	3,580	3,614	3,637	3,628	0.4%
Filled	2,782	2,996	3,220	3,230	5.1%
Vacant	798	618	417	398	-20.7%
Vacancy Rate	22.3%	17.1%	11.5%	11.0%	
Other Positions					
Budgeted	3,221	3,216	3,174	3,192	-0.3%
Filled	2,437	2,475	2,558	2,599	2.2%
Vacant	784	741	616	593	-8.9%
Vacancy Rate	24.3%	23.0%	19.4%	18.6%	

Source: Colorado Department of Corrections, Position Status History

* Data for Fiscal Years 2021-2022 through 2023-2024 is as of the last day of the fiscal year. Fiscal Year 2024-2025 is represented by data from November 7, 2024.

** CAGR stands for compound annual growth rate.

According to the Department, one reason that its requests for FTE and total compensation costs do not reflect actual need is because it believes it does not have the support to make such requests. The Department feels it did not have support to apply a higher shift relief factor to its personnel requests and it has seen the JBC approve less funding for shift differential than the Department requested.

PFM recognizes that Colorado's budget environment has shifted in recent years and there is a need to keep budget increases at a minimum. After two years of one percent and two percent growth for non-caseload-related items, the Governor's Office's Fiscal Year 2025-2026 budget guidance sought 0 percent General Fund growth for non-caseload items and 1 percent General Fund reduction options. The Department may correctly perceive that the budget environment does not support a request for additional personnel funds, particularly while it continues to experience meaningful vacant positions. However, by not including complete personnel cost information in its budget requests, the Department has not historically been transparent about its staffing needs.

Why do these problems matter?

The Department must rely on overtime and pull staff from other non-security-related posts to address all staffing shortages, including those created by an outdated shift relief factor. In addition to increasing overtime costs, staff shortages due to vacancies and funding challenges can lead to burnout and retention problems among existing staff. For example, the Department shared with PFM that case managers who have gone through officer training may be asked to staff a security post rather than perform their usual function. Peers in other large correctional systems have found that high overtime due to consistent staffing shortages can have a negative impact on safety and security due to staff fatigue, including a lack of alertness, poor emotional regulation, and poor performance and productivity.[27]

In addition, if there are fewer employees than needed, such as would occur if employees take more leave than is anticipated or if there are staff vacancies, the Department must use overtime to make up the difference. If the shift relief factor is too low, meaning it overestimates how many hours each FTE will work, then the Department may need to use more overtime to make up the difference.

PFM looked to Arkansas Valley Correctional Facility (AVCF) to understand the impact of the outdated shift relief factor in a single facility. AVCF has 64 posts that use a shift relief factor of 1.6. If the Department applied a shift relief factor of 1.76 instead (i.e., its updated calculation discussed above), that would equate to roughly 10.2 more FTE working eight-hour shifts.

To understand the impact of the outdated shift relief factor on the whole system, PFM analyzed the Department's position count on November 7, 2024. On that date, the Department had a total of 3,628 correctional officer positions (both filled and unfilled). If these numbers are based on a shift relief factor of 1.6, the Department is expecting to provide continuous coverage for 2,018.8 posts. However, based on the updated shift relief factor of 1.76, the Department would need to request 362.8 more correctional officer FTE to cover the same number of posts.[28]

Table 15: Updated Shift Relief Factor Applied to November 2024 Position Count

	Nov. 2024 Position Count	Posts equivalent assuming 1.6 FTE	FTE Adjusted for 1.76 SRF	Difference	Percent Difference 1.6 vs 1.76 SRF
Filled CO Positions	3,230.0	2,018.8	3,553.0	323.0	10%
Unfilled CO Positions	398.0	248.8	437.8	39.8	10%
Total CO Positions	**3,628.0**	**2,267.5**	**3,990.8**	**362.8**	**10%**

Source: Colorado Department of Corrections, Position Status History

[27] Council of State Governments. (2024, September). "Using Data to Analyze Overtime and Optimize Staffing: D.C. DOC's Approach to Continuous Learning." Recorded webinar, accessed December 23, 2024 at https://csgjusticecenter.org/events/using-data-analyze-overtime-use-optimize-staffing-d-c-docs-approach-continuous-learning/.

[28] Both of these high-level analyses are intended only to be illustrative. In practice, the Department's position data includes correctional officers assigned to supervisory positions and other posts that may not be subject to the same shift relief factor of 1.6. Additionally, it assumes the Department's current budget for correctional officer FTE is based on a 1.6 shift relief factor.

Recommendation No. 2

The Department of Corrections (Department) should improve the transparency of its personnel-related budget requests by preparing requests that reflect its actual anticipated personnel costs and potential savings related to vacancies. This should include:

A. Developing a budget model(s) to estimate its actual personnel costs across all correctional facilities that includes:

   - The actual number of correctional, clinical, behavioral health, and program staff needed as it completes updated staffing plans and post-specific shift relief factors with the National Institute of Corrections in 2025.
   - Estimated costs based on applying an updated shift relief factor that takes into account expected vacancies, and employee time off due to leave and training. The shift relief factor should be applied to all posts requiring continuous coverage, including those that may have been previously funded under the old shift relief factor.
   - Estimated shift differential costs that reflect compensation/policy changes, such as across-the-board salary increases for state employees.
   - Estimates of overtime and actual contract staff costs related to ongoing staff vacancies among both correctional officers and clinical and behavioral health staff. Based on recent recruitment and retention trends for these positions, the Department should project its need for contract staff while preparing its budget request.

B. Working with the Department of Personnel & Administration (DPA) – in coordination with Office of State Planning and Budgeting and Joint Budget Committee staff – to implement Part A of this recommendation and incorporate appropriate customizations into its DPA pay plan(s).

Department of Corrections Response:

A. Agree

   Implementation Date: November 1, 2026

   The Department commits to calculating and submitting estimated differential and overtime requests, based on actual staffing and shortages. Based on conversations with the auditors, this includes refining our internal reporting capabilities, as well as our external reporting. The Department is committed to refining internal reporting to allow for a more granular view of personal services. This includes training more individuals on personal services data, and creating report templates that split out personal services among the different lines.

The Department will work with the Governor's Office and the Department of Personnel and Administration (DPA) to ensure future requests reflect accurate and current projections. The Department will work with DPA OSPB to more accurately reflect shift differential, overtime and contracts into our FY 2026-27 budget.

The Department also commits to aligning its FTE allocations with the findings of its ongoing staffing analyses and reflecting an appropriate and current relief factor, in line with national guidelines and best practices.

The Department plans on having the NIC staffing analysis completed by the end of calendar year 2025. At the end of those, we will be looking into other areas within our facilities, such as clinical, education, and support services, and plan to have these completed by April 2026. Where applicable, the Department will use national standards or best practices to complete these analyses, as well as recent or upcoming research that may inform our staffing models.

B. Agree

Implementation Date: November 1, 2026

The Department agrees with this recommendation. Although the Department has asked for increases in funding for personal services, it has done so through OSPB during supplementals, and not during the common policy process. As mentioned above, the Department looks forward to working with DPA and OSPB to more accurately reflect shift differential, overtime and contracts into our FY 2026-27 budget during the common policy process. We hope this will improve transparency in our salaries.

Finding 3 – Managing the Costs of Clinical and Behavioral Health Positions

The Department leverages contracts with staffing agencies to fill vacant clinical and behavioral health-related positions with qualified individuals while continuing to recruit for the vacancies. The Department has faced challenges filling these roles, even while it has been able to hire more correctional officers. The Department's Clinical Services team (within the Clinical and Correctional Services Division) has one Health Professional staff who manages the contracts with the staffing agencies.

To identify staffing agencies, the Department releases a solicitation for relevant services and selects agencies that are able to provide the services needed. Currently, the Department has active contracts with 12 agencies for medical-related staff and 10 agencies for behavioral health-related staff (four agencies have contracts with the Department for both types of staff). The Department contracts with numerous agencies across the state to maximize the likelihood that one will have the qualified personnel necessary, particularly in more remote areas.

Each facility has a health services administrator (HSA) who monitors filled staffing levels and requests temporary clinical contract staff when needed. The Clinical Services team shared with PFM that it would always prefer to place a state employee who is committed to working in a secure setting in these roles. The Department continues to seek candidates for these roles even while there is a contract staffer in them.

When a correctional facility determines it needs a contract staffer to fill a clinical or behavioral health position until the vacancy is filled, the Department's Health Professional who manages the staffing contracts puts out a request to all the contract agencies simultaneously with a description of the skills or certifications needed. The Clinical Services team shared with PFM that due to previous litigation related to not requesting staff from agencies with higher rates, they must send the opportunity to every agency. Each agency that has candidates who meet the criteria sends resumes to the Department; the Department selects the candidate who is the most qualified, with a preference for candidates who live locally.

What work was performed and what was the purpose?

PFM reviewed the Department's initial and supplemental budget requests, Figure Setting Documents, and Long Bill Narratives for Fiscal Year 2022-2023 through Fiscal Year 2025-2026. We reviewed each of the Department's active contracts with 18 staffing agencies for clinical and behavioral health staff.[29] We also reviewed and analyzed data provided by the Department,

[29] Includes 22 contracts with 18 distinct providers; four providers had a contract for medical staffing and a separate contract for behavioral health staffing. Colorado Department of Corrections, "Temp Behavioral Health Staffing; Temp Medical Staffing" contracts provided to PFM, January 10, 2025.

including contract staff expenditures, filled and vacant budgeted positions, and historical comparisons of contract staff hourly rates by agency and by position.

The purpose of this work was to assess the Department's efforts to control costs related to clinical and behavioral health positions; clarify how, when, and why the Department utilizes contracted staff to address its staffing challenges; and determine whether there are any best practices for controlling these costs that the Department has yet to explore.

What issue did the work identify, why did it occur, and why does it matter?

The Department has offered financial incentives and made policy changes to improve recruitment and retention of clinical and behavioral health staff, but it continues to face persistent vacancies. In November 2024, 29.6 percent of budgeted clinical and behavioral health positions were vacant compared to 11.0 percent of correctional officers and 15.5 percent of all other positions. However, as seen in Table 16, the Department has reduced its vacancy rate since Fiscal Year 2021-2022 when the rate was 40.4 percent for clinical and behavioral health positions. Between Fiscal Year 2021-2022 and Fiscal Year 2024-2025, the Department increased its number of filled positions by a CAGR of 5.7 percent, from 422 to 498 and the vacancy rate decreased from 40.4 percent to 29.6 percent.[30]

Table 16: Department Filled and Vacant Clinical and Behavioral Health Positions (FTE), Last Day of Fiscal Year 2021-2022 - Fiscal Year 2024-2025

Clinical / Behavioral Health Positions	FY 2021-2022	FY 2022-2023	FY 2023-2024	FY 2024-2025	FY 2022-2025 CAGR*
Filled	422	415	475	498	5.7%
Vacant	286	294	235	209	-9.9%
Total Budgeted	**708**	**709**	**710**	**707**	**0.0%**
Vacancy Rate	**40.4%**	**41.5%**	**33.1%**	**29.6%**	

Source: Clinical and behavioral health positions coded by PFM based on position data provided by Colorado Department of Corrections
Note: Data for Fiscal Years 2021-2022 through 2023-2024 is as of the last day of the fiscal year. Fiscal Year 2024-2025 is represented by data from November 7, 2024.
* CAGR stands for compound annual growth rate.

Simultaneously, the Department's expenditures on staffing agency contracts more than doubled from $15.8 million in Fiscal Year 2021-2022 to $31.6 million in Fiscal Year 2023-2024. See Table 17 for a breakdown of expenditures on clinical and behavioral health staff positions.

Registered Nurse and Licensed Practical Nurse positions accounted for more than 70 percent of expenditures during this period, the total cost of which doubled from $10.4 million in Fiscal Year 2021-2022 to $20.8 million in Fiscal Year 2023-2024. Although a smaller share, expenditures on

[30] This historical analysis includes clinical and behavioral health positions that are not assigned to a correctional facility, for example individuals who provide centralized programming and support.

contracted behavioral health positions increased 700 percent over the period, or by a CAGR of 185.8 percent.

As of October 2024, the Department projected staffing agency contract costs would total $29 million in Fiscal Year 2024-2025, a slight decrease compared to Fiscal Year 2023-2024.

Table 17: Expenditures on Contract Staff, Fiscal Year 2021-2022 through Fiscal Year 2023-2024

Position Type	FY 2021-2022	FY 2022-2023	FY 2023-2024	FY 2022-2024 CAGR*
Certified Nurse Assistant	$184,874	$18,180	$0	-100%
EMT/Paramedics	$339,120	$56,554	$0	-100%
Pharmacy-Related	$30,680	$61,834	$31,626	1.5%
Xray Technician	$27,222	$20,613	$47,401	32.0%
Physician	$938,718	$1,296,653	$809,803	-7.1%
Dental-Related	$474,172	$424,995	$1,149,173	55.7%
Physician's Assistant/Nurse Practitioner	$2,768,371	$2,544,769	$4,032,949	20.7%
Behavioral Health	$582,262	$1,498,447	$4,755,562	185.8%
Registered Nurse, Licensed Practical Nurse	$10,445,031	$21,328,883	$20,790,815	41.1%
TOTAL	**$15,790,452**	**$27,250,927**	**$31,617,328**	**41.5%**

Source: Data provided by Colorado Department of Corrections
* CAGR stands for compound annual growth rate

The terms of the Department's contracts with the staffing agencies have a standard structure, but the rates established with each agency differ. Rates may differ based on the type of position, the geographic region, and by local versus traveling (i.e., traveling is more expensive). The difference between local and traveling hourly rates varies across contracts, from $12 to $100 depending on agency and position. Each position also has an overtime and holiday hourly rate.

There are too many combinations of positions, agencies, and rate types to offer a succinct and meaningful comparison, so PFM selected two common position types to demonstrate the variation in rates. For a local Licensed Clinical Social Worker, in Fiscal Year 2024-2025, the regular shift rate varied among staffing agencies from $50 to $100 per hour. For a local Registered Nurse in the same year, the regular shift rate varied from $70 to $100 per hour.

The Department's costs for clinical and behavioral health positions doubled even while it filled more than 40 relevant vacancies between Fiscal Year 2021-2022 and Fiscal Year 2023-2024. This was due, in part, to an increase in rates paid to contract staffing agencies (and contracted staff). The Department reported that it increased its rates since Fiscal Year 2021-2022 to attract the staff the Department needs. The Clinical Services team shared with PFM that in Fiscal Year 2021-2022, the staffing agencies reported challenges recruiting qualified candidates because the Department's rates were too low. The agencies provided market-based justifications, and the

Department amended its contract with several agencies to increase their rates and has subsequently been able to attract more qualified candidates.

From PFM's review of staffing agency rates between Fiscal Year 2021-2022 and Fiscal Year 2024-2025, we found that rates for behavioral health positions increased by an average of $17.85 per hour (a range of $10 to $50 per hour). Fewer clinical staffing agencies held contracts in each of those years for a direct comparison, but we saw most rates increase by $2 to $40 per hour.

Department Efforts to Address the Issue

In addition to increasing rates to attract contracted staff, the Department has taken steps to improve its recruitment and retention of clinical and behavioral health employees.

- Creating a Department-wide Talent Acquisition Group (TAG) to increase advertising, recruitment events, and staff support.
- Allowing some positions to work remotely, which makes the Department more competitive with other employers and enables telehealth appointments, particularly in facilities located in regions that face greater hiring challenges.
- Exploring different and flexible shift schedules, which makes the Department more competitive with other employers.
- Hiring nurses before they take their certification exams, so they may begin the Department's training academy while completing their certifications.
- Converting contract staff to full-time employees.

As part of this effort, the Department has also offered incentives and non-base building salary increases to clinical and behavioral health employees and provider rate increases.

- Fiscal Year 2022-2023: **1 percent provider rate increase** for providers of clinical treatment.
- Fiscal Year 2023-2024: **3.17 percent one-year non-base building salary increase** for health professionals (and correctional officers and correctional support trades supervisors).
- Fiscal Year 2024-2025: **$25,000 incentive payments** for certain Department clinical staff with one year of roll forward authority provided to the Department.
- Fiscal Year 2024-2025: **3.2 percent two-year non-base building salary increase** for 4,533 FTE across 30 job classes, including nurses, health professionals, mid-level providers, social workers, and more (JBC limited this to employees with a base salary of $90,000 or less after all other total compensation increases).
- Fiscal Year 2024-2025: Requested and received funding to roll out **broadband at 14 facilities**, which enables the remote and flexible work schedules described above.

- Fiscal Year 2025-2026: Requested $7.5 million for non-base building salary increases, however this request was not approved. The Department did receive $733,715 for **non-base building salary increases for clinical staff**.

Although the Department has instituted a number of changes to improve its recruitment and retention (and has seen progress), it has not sufficiently reduced its staff vacancy rate and contract staff costs remain high. As a result, the Department must better understand the unique drivers of its staffing challenges to be able to fill more clinical and behavioral health positions, and ultimately, reduce contract staff costs. This detailed and tailored information will provide a basis for determining appropriate and relevant recruitment and retention activities, and developing potential requests for funding to support those activities.

Recommendation No. 3

The Department of Corrections (Department) should conduct a deeper analysis of its recruitment and retention trends and the issues driving vacancies among clinical and behavioral health positions. Such an analysis should look at the trends by type of position and by facility or region and examine barriers to recruitment and hiring and reasons why people choose to start employment and/or stay with the Department. Any additional steps the Department takes to address its vacancies should align with the results of this analysis.

Department of Corrections Response:

Agree

Implementation Date: June 30, 2026

The Department's Office of Human Resources has met with Behavioral Health leadership within the Department's Clinical Services. We are examining opportunities to invite those in master-level psychology/counselor programs to come tour a facility and meet with our behavioral health teams to see what we have to offer and hopefully destigmatize a prison working environment. We have also engaged the Attorney General's office to review relevant Administrative Regulations (ARs) to see if we can accommodate those with different backgrounds. Increasing hiring for our top ten hard-to-fill positions, six of which include clinical or behavioral health positions, is one of our Wildly Important Goals (WIG) for FY 2025-26. In anticipation of this WIG, Human Resources is doing a deeper analysis consistent with the recommendation above.

Finding 4 – Budgeting for Caseload-Related Operational Costs

As part of its caseload requests, the Department requests funds for operational expenses that are calculated on a per-FTE or per-inmate basis, such as:

- **Operational costs calculated per FTE** include training, uniforms, computers, desks, and desk phones – items that are related to onboarding a new employee.
- **Operational costs calculated per inmate** rely on the existence of inmates in a facility. These costs include utilities, maintenance, housing and security, food service, medical, laundry, case management, inmate pay, education, and facility start-up costs. Facility start-up costs are related to intake at the Denver Reception and Diagnostic Center and include items such as mattresses, pillows, sheets, blankets, drug testing, and inmate clothing.

Each fiscal year, once the Department receives its budget appropriation, it allocates relevant budget lines across its correctional facilities so that each facility's warden has a budget to manage to. Each facility is also assigned a funded capacity, which is the number of inmates that the facility can house at any one time based on funding.

To prepare its caseload request, the Department calculates a per-inmate average cost allocation for the current fiscal year for each operational cost category and multiplies that average cost allocation by the number of beds it is requesting. The calculation divides the facilities' appropriated operating expense for the current fiscal year by the number of beds that comprises its funded capacity. In two of the eight caseload requests PFM reviewed, the Department stated that it applied an inflation rate to its current year appropriation based on the Consumer Price Index.

What work was performed and what was the purpose?

PFM reviewed the Department's initial and supplemental caseload requests for Fiscal Year 2022-2023 through Fiscal Year 2025-2026 and the Department's internal documents related to its budget process, specifically focusing on calculating operational costs. We also conducted multiple interviews with Department staff to discuss how they calculate operational costs. In addition, PFM reviewed relevant research and best practices on calculating the costs of a corrections system, with particular focus on work done by the Vera Institute of Justice ("Vera") to develop a methodology for calculating the incremental cost change resulting from a change in inmate population ("marginal costs"), which Vera developed to conduct cost benefit analysis in the criminal justice system.

The purpose of this work was to determine how the Department calculates its requests for caseload-related operational costs and assess its current approach against best practices for correctional agencies.

How were the results of the work measured?

There are generally two ways to calculate the change in costs related to a change in inmate population: average cost and marginal cost.

Average cost is more straightforward and is calculated by taking the total cost of a function or service and dividing it by the number of inmates (either in a specific facility or systemwide). Average cost per inmate is easier to calculate than marginal cost because the data is more accessible – one only needs the total cost of a service or function and the number of people who access it. For example, a corrections department may divide a facility's budget by its average daily population to calculate its cost per inmate. However, this approach is not precise and overestimates costs because it assumes that the cost of a service increases for each additional person who accesses it. For example, the cost of a corrections officer assigned to a housing unit does not increase when one more inmate is added to that unit.

To address the limitations of average cost calculations, Vera has established a methodology to more accurately calculate the change in costs for prisons related to a change in inmate population: marginal cost. Vera's guide is broadly accepted in the field of criminal justice practitioners and affirmed by peer-reviewed criminal justice journals.

Marginal costs are defined by Vera as "the amount the total cost changes when a unit of output (also referred to as 'workload' in this guide) changes…It means at the margin of an existing level of operations…In the context of the criminal justice system, the marginal cost is the amount of change in an agency's total operating costs when output (such as arrests, court filings, or jail days) changes."[31] Marginal cost is preferable to average cost for many cost calculations in corrections because it is a more accurate reflection of how total costs change when one more person is placed in a correctional facility.

> "Multiplying the average cost by any reduction in the average inmate count overestimates savings because the average cost includes fixed expenses for administration, utilities, and facilities that do not change when the inmate population declines.
>
> The effect of…rising costs means that it is possible for the jail budget to increase even as the inmate population and the number of jail employees declines.
>
> Calculations of jail or prison savings should instead be made using marginal costs."
>
> -- Vera Institute of Justice, *Price of Jails, 2015*

Marginal cost calculations distinguish among variable costs, step-fixed costs, and fixed costs to best estimate which cost types or categories are likely to be impacted by changes in workload (e.g., inmate population) in the short term. Marginal cost captures variable costs in the short-term (of which

[31] Henrichson, Christian and Sarah Galgano. (2013, May). *A Guide to Calculating Justice-System Marginal Costs*. New York, NY: Vera Institute of Justice, pages 4-5.

there are few in corrections systems), variable and step-fixed costs in the longer-term (i.e., future budget cycles), and excludes fixed costs entirely.

Vera defines these cost types in the following way:[32]

- **Variable costs** are those that change directly and immediately in proportion to workload; also known as **short-run marginal costs**. Examples of variable costs include food, contracted services, supplies, and fuel.
- **Step-fixed costs** remain constant for a certain range of workload but can change if the workload exceeds or falls below that range. The most common examples of step-fixed costs are staff salaries and benefits.
- **Fixed costs**, in contrast, are those that remain fixed over a given period and are not usually affected even if the workload changes. Examples of fixed costs include rent, utilities, and central administration.
- **Long-run marginal costs** are the sum of short-run marginal costs (or, variable costs) plus the step-fixed costs that change in the long run as adjustments are made to staffing levels in response to larger changes in workload.

Table 18 is based on an excerpt from Vera's *Price of Jails* report that summarizes examples of variable, fixed, and step-fixed costs.

Table 18: Examples of Variable, Step-Fixed, and Fixed Costs

Variable	Step-Fixed	Fixed
Overtime Supplies Contracted services Client subsidies Travel Fuel Food	Staff salaries Fringe benefits, such as health care and pension obligations Possibly some fixed costs when staffing levels change by a large amount	Rent Utilities/maintenance Central administration (human resources, fiscal, legal, etc.) Debt service Equipment

Source: Vera Institute of Justice, *Price of Jails*, 2015

What problems did the work identify and why did they occur?

PFM's review of the Department's funding requests for caseload-related operational costs found that the Department is not following best practices. Specifically, we found the following problems with the Department's current methodology.

[32] Ibid., page 7.

1. While the Department's methodology is generally consistent from year-to-year, it relies on an "average cost per inmate" rather than a marginal cost calculation of operational costs.
2. The Department bases its average cost estimates on projected caseload rather than actual caseload, and on budget allocations rather than actual expenditures.
3. The Department has used two different approaches for factoring in fixed and variable costs, specifically with utilities and maintenance costs, depending on whether it is requesting an increase or a decrease in operational costs.

Average vs. Marginal Cost

PFM's review found that the Department treats all of its operational costs as variable costs in its caseload requests and calculates them as an average cost per inmate. According to the Department, it uses this method because it is simpler to calculate average cost per inmate than marginal cost, and it is also simpler to communicate this in its budget requests to the JBC.

Table 19 compares the Department's approach to its most common operational expense categories to the best practice recommended by Vera. Notably, how the Department budgets for utilities and maintenance does not align with best practice. They would be more accurately considered fixed costs and should not be included in calculations of short-term cost impacts.

Table 19: Department Operational Cost Categories

Operational Expense*	Department Approach	Best Practice Approach
Utilities	Variable	Step-Fixed or Fixed
Maintenance	Variable	Fixed
Housing and Security	Variable	Variable
Food Service	Variable	Variable
Medical	Variable	Variable
Laundry	Variable	Variable
Inmate and FTE Start-up Costs	Variable	Variable
Case Management	Variable	Variable
Inmate Pay	Variable	Variable
Education	Variable	Variable

Source: Compiled from Colorado Department of Corrections Caseload Requests, Fiscal Years 2022-2023 through 2025-2026
* Many of these expenses have a personnel component as well. This table reflects only operating expenses.

Actual vs. Projected Population and Expenditures

The Department calculates its average cost per inmate based on the number of beds that have been funded in a facility by the budget appropriation for that facility, rather than on actual expenditures or actual average daily population, which would be a more accurate reflection of the actual cost. In other words, the Department divides its fiscal year appropriation for a particular cost category at a particular facility by the number of beds that have been funded in that year (in that facility). This approach could result in estimating a cost per inmate that is higher or lower than reality. For example, if the Department were to divide its prior year budgeted food service costs by its population projection but food service costs in the next fiscal year were more expensive than anticipated, the Department would underestimate food service costs for additional inmates.

Inconsistent Usage of Fixed and Variable Costs

The Department uses an inconsistent approach to calculating the utilities and maintenance costs related to its caseload requests. This is reflected in the analysis of JBC staff, which found that in some instances the Department treats utilities costs as *fixed* when it requests a decrease in funds related to inmate population projections, and as *variable* when it requests an increase in funds related to inmate population projections. In other words, the Department requests to retain funds for utilities when it reduces its caseload funding but then requests to increase those budgeted costs further when caseload is projected to increase. Although the JBC staff's analysis focused on utilities costs, PFM identified a similar pattern with maintenance costs.

The Department explains in its Fiscal Year 2024-2025 supplemental caseload request why it requests to retain these utilities and maintenance dollars when population is projected to decrease: "Unless a facility is to be closed permanently, there will continue to be utility costs and costs associated with maintaining and preserving beds and living units. Continuing to maintain these living units and facilities prevents infrastructure damage and reduces costs when beds need to come back online in the future."

Vera's guide on calculating the cost of corrections supports the Department's approach that assumes utilities and maintenance costs will continue to be expended after the Department closes a housing unit: "When states close prisons or parts of prisons, only the marginal cost can be eliminated. The marginal cost is composed of variable costs, and if prison capacity is reduced sufficiently, step-fixed costs."[33] As noted above, utilities and maintenance are not variable costs and should not be calculated on a per-inmate basis.

However, the Department does not consistently apply this approach of considering utilities and maintenance costs as fixed costs when it closes and reopens beds. The JBC staff's analysis reviewed four Department requests to open and close beds in the Buena Vista Correctional Facility and three requests to open and close beds in the La Vista Correctional Facility and the Trinidad Correctional Facility since Fiscal Year 2021-2022. As Table 20 shows, when the Department closes beds, it sometimes requests that utility costs be decreased, but sometimes it does not. However,

[33] Henrichson, Christian and Ruth Delaney. (2012, January). *The Price of Prisons: What Incarceration Costs Taxpayers.* New York, NY: Vera Institute of Justice, page 14.

every time the Department requested to open beds, there was a corresponding request to increase utility costs, even when utility costs were not decreased when the beds closed.

Table 20: Excerpt from JBC Working Document, Fiscal Year 2024-2025 Supplemental Requests, Utilities Funding in Department Prison Caseload Requests, Select Facilities

<table>
<tr><th>Facility</th><th>FY 2021-2022</th><th>FY 2023-2024</th><th>FY 2024-2025</th><th>FY 2025-2026 (November)</th></tr>
<tr><td>Buena Vista</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Requested Utilities</td><td>(-) $21,100</td><td>$27,063</td><td>$0</td><td>$628,000</td></tr>
<tr><td>Requested Beds</td><td>(-) 100</td><td>100</td><td>(-) 200</td><td>200</td></tr>
<tr><td>La Vista</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Requested Utilities</td><td>$0</td><td>$187,792</td><td>$36,034</td><td rowspan="2">n/a</td></tr>
<tr><td>Requested Beds</td><td>(-) 80</td><td>130</td><td>80</td></tr>
<tr><td>Trinidad</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Requested Utilities</td><td>(-) $65,300</td><td>$186,063</td><td rowspan="2">n/a</td><td rowspan="2">n/a</td></tr>
<tr><td>Requested Beds</td><td>(-) 300</td><td>300</td></tr>
</table>

Source: Joint Budget Committee Working Document, Department of Corrections Supplemental Budget Requests Fiscal Year 2024-2025, January 23, 2025, page 13

Additionally, the amounts requested for utilities costs when beds reopened significantly increased in some instances. As the JBC staff's analysis shows, the Department's decision to retain funds for utilities and maintenance when it decreases beds and then request funds when it adds beds may lead to an overestimation of actual cost. Using the examples provided in Table 20, the Department decreased its bed count at Buena Vista by 200 beds in Fiscal Year 2024-2025 and retained all costs for utilities. However, when it requested to fund those 200 beds again the next year, during the Fiscal Year 2025-2026 budget cycle, the Department requested an additional $628,000 in utilities costs. When compared to Fiscal Year 2023-2024, when the Department requested $27,063 to fund 100 beds at the same facility, the Department's calculations indicate that its average utility cost per inmate increased more than 11.5 times in the last two years.

Table 21 offers an example of how this approach naturally leads to an increasing average cost per inmate. If the Department is funded $100,000 for utilities when its funded capacity is 500 inmates, and then retains those funds when it decreases its bed count, the average cost per inmate will naturally be higher when it requests funds to open more beds. This example also demonstrates why using average cost rather than marginal cost fails to properly estimate the financial impact of adding or subtracting inmates to a facility.

Table 21: Sample Calculation of Average Cost per Inmate While Retaining Utilities Funds

	Year 1	Year 2	Year 3
Appropriation	$100,000	$100,000	$100,000
Funded Capacity	500	475	430
Cost Per Inmate	$200	$211	$233

Source: PFM calculation for illustrative purposes only

Why do these problems matter?

The Department's current approach to calculating operational costs for its budget requests means that it is likely overestimating how much it needs to increase or decrease its appropriation for caseload-based operational costs.

To summarize, there are three things the Department is doing to drive this:

- Calculating average costs per inmate rather than marginal cost,
- Calculating costs based on appropriated funds and projected population, rather than actual expenditures and actual average daily population, and
- Considering utilities and maintenance a fixed cost when requesting to decrease caseload-related funds but considering them a variable cost when requesting to increase caseload-related funds.

Tables 20 and 21 demonstrate the financial impact of the latter issue related to utilities and maintenance costs.

PFM did not request data to compare the Department's marginal cost of operational expenses to its average cost, nor was it within the scope of this evaluation, so the financial impact of using average cost rather than marginal cost is not currently known. However, to look at a specific example, if the JBC were to approve the Department's request for an additional $628,000 for utilities at Buena Vista, based on its prior year requests highlighted in the table, it is likely the facility would be over-funded for that cost.

The Department's calculation of mid-year budget adjustments likely both overestimates and underestimates how much it will save in operational costs. First, the calculation is based on average cost per inmate, but it will only be able to realize marginal savings in the remaining three months of the fiscal year. Second, this approach assumes the Department has not purchased in advance of the fourth quarter any goods or services that fall under the relevant line items. These two issues would overestimate fourth quarter savings. Third, the Department may underestimate savings because the calculation is based on funded capacity rather than average daily population – if actual population has been substantially lower than funded capacity, the Department may have already accrued savings throughout the year.

Recommendation No. 4

The Department of Corrections (the Department) should improve its methodology for calculating caseload-related operational costs as part of the annual budget process to ensure that the resulting calculations are accurate, precise, and transparently communicated by:

A. Calculating the marginal cost of operational expenses based on actual expenditures and average daily population, not average appropriation per inmate. This requires sufficiently detailed line-item budget data to accurately distinguish between variable, step-fixed, and fixed costs.

B. Accurately categorizing each operational cost as variable, step-fixed, or fixed. Some operational expense categories may include some costs that are variable and some that are step-fixed; these should be disaggregated for the purpose of calculating marginal costs.

C. Establishing clear thresholds for incorporating step-fixed costs into the calculations by determining the size of population change that triggers changes in step-fixed costs (e.g., personnel costs), and the amount of the change. The Department should establish and clearly document its approach, including for which costs a step-fixed cost threshold will be used, the threshold amount, and when the threshold will be revisited.

D. Developing a clearly documented approach to determining whether short-run marginal costs or long-run marginal costs will be applied. The adopted approach should incorporate the thresholds for incorporating step-fixed costs, the time-horizon for which costs are being measured (e.g., one fiscal year), and other relevant factors.

E. Establishing a process for monitoring how actual expenditures fluctuate in response to marginal cost input changes (e.g., inmate population changes) to assess the accuracy of its budget estimates. The Department and its budget stakeholders should not expect actual expenditures to align precisely with budget projections, but this analysis should inform adjustments to future requests.

Department of Corrections Response:

A. Agree

Implementation Date: November 1, 2026

The Department agrees with this recommendation, especially as it aligns with Recommendation 1. The Department agrees in moving away from average cost per inmate, and toward a more descriptive caseload model that is only triggered with large changes, and has clearly delineated marginal costs. In particular, the Department looks forward to aligning our most common operational expense categories to the best practice recommended by the Vera Institute. The Department may be limited in the ability to discern all categories due to the limitations of our IT systems. This will ensure the Department will submit a proposal to the Governor's Office in the summer of 2026 with a proposal of variable, step-fixed, and fixed costs. With their help, we would like to have the new caseload calculations inform the November 1, 2026, Governor's budget submission.

B. Agree

Implementation Date: November 1, 2026

The Department agrees with this recommendation. The Department believes that having a clear term sheet with the costs disaggregated would be beneficial to our Department in terms of training new staff, and for the Governor's Office and legislature for transparency. The Department will submit a proposal to the Governor's Office in the summer of 2026 with a proposal of variable, step-fixed, and fixed costs. With their help, we would like to have the new caseload calculations inform the November 1, 2026, Governor's budget submission.

C. Agree

Implementation Date: November 1, 2026

The Department agrees with this recommendation. The Department will submit a proposal to the Governor's Office in the summer of 2026 with a proposal of variable, step-fixed, and fixed costs. With their help, we would like to have the new caseload calculations inform the November 1, 2026, Governor's budget submission. The Department expects this to be informed by classification level.

D. Agree

Implementation Date: November 1, 2026

The Department will submit a proposal to the Governor's Office in the summer of 2026 with a proposal of variable, step-fixed, and fixed costs. With their help, we would like to have the new caseload calculations inform the November 1, 2026, Governor's budget submission. At this time, the Department believes that long-term marginal costs are based on operating and personal services funds only, and does not include long-term capital needs for the Department.

E. Agree

Implementation Date: August 1, 2026

The Department will endeavor to establish a process for monitoring how actual expenditures fluctuate in response to marginal cost input changes. However, some of our abilities may be limited by our IT systems and staffing, as a lot of reports take manual labor to produce, if possible. The Department is committed to exploring best practices and researching existing systems available to assist in transitioning from manual to automated reporting opportunities.

Finding 5 – Budget Documentation and Explanation

The Department submits its caseload requests (and all other change requests) first to OSPB and subsequently to the JBC using a standard Request Detail template, which is a narrative description and justification for the request.[34] The Request Detail is a template document with headings that include Summary, Current Program, Problem or Opportunity, Proposed Solution and Anticipated Outcomes, Promoting Equitable Outcomes, and Assumptions and Calculations. The Assumptions and Calculations heading is the area in which the Department details how it arrived at the budget and FTE request.

The Budget and Business Operations team in the Department's Finance and Administration Division is responsible for developing the budget documentation and justification for caseload requests. The Prison Operations Division provides input during this process to determine how many beds in each facility (and at which classification level) to request to increase or decrease with the caseload request.

What work was performed and what was the purpose?

PFM reviewed the Department's initial and supplemental caseload requests for Fiscal Year 2022-2023 through Fiscal Year 2025-2026 and related requests for information, questions posed via email by JBC staff, and Figure Setting documents. We also conducted multiple interviews with Department, JBC, and OSPB staff. During a site visit to the Department's headquarters, PFM viewed some of the data systems and dashboards the Department uses to track inmate movement and capacity, which help inform caseload requests.

The purpose of this work was to evaluate the accuracy, completeness, and consistency of how the Department defines, justifies, and communicates its caseload requests.

What problems did the work identify and how were they measured?

PFM found that the Department does not provide clear or complete explanations of the assumptions and methodologies that it uses to prepare its caseload requests and submits requests with information that is inaccurate, incomplete, and inconsistent. The Department's level of detail, content organization, analysis, and justification in its caseload requests was different in every year PFM reviewed.

Our analysis of the Department's caseload requests affirms the concerns JBC staff raised about the Department's methodology and processes in JBC Figure Setting Documents and other analyses. The Department makes sudden changes to its methodology for calculating caseload and related costs, poorly communicates when it makes those changes, and fails to sufficiently justify its

[34] As described in the introduction to Chapter 2, a caseload request is a request that is driven by caseload changes. The Department defines caseload changes as "offender population growth, an increase in workload, or changes that cannot be achieved within the current level of funding."

requests for funds. It also introduces new terminology into budget documents without providing definitions or explanations and submits requests that include erroneous information and calculation errors.

Methodological Changes

We noted instances where the Department changed its method for calculating key elements of its caseload requests without explaining the changes.

- In its Fiscal Year 2023-2024 supplemental caseload request, the Department changed its method of calculating operational capacity (i.e., a number that reflects how many beds are available to house inmates indefinitely, as opposed to temporarily for intake and infirmary purposes), but did not communicate that there was a change in its methodology, how its calculation changed, or the reason for the change in the request. The Department intentionally removed 495 beds that are used for a Residential Treatment Program from its operational capacity (i.e., made 495 fewer beds available to house inmates indefinitely), and then requested funds to open 495 additional beds to meet its needs to house inmates.

  The Department's action reflected both a sudden change to methodology and poor communication and justification because the Department did not reference, describe, or justify this change in its request detail. The change was identified in a comeback from OSPB in late January 2024, following a question from JBC staff about the additional requested beds.

  The Department refers frequently to the 2013 Prison Utilization Study (and its 2016 and 2021 updates) to explain and justify its caseload methodology decisions. However, this change to how the Department characterized beds in a Residential Treatment Program was not substantiated by the Prison Utilization Study. The 2021 report update stated "Because [residential treatment programs] are central components of their facility mission, the housing dedicated to these programs is considered part of operational capacity."[35]

- As described in Finding 1, the Department has historically used DCJ's inmate population projections to determine exactly how many beds it needs in the upcoming fiscal year to house inmates (i.e., operational capacity) and calculates its caseload request by taking the delta between current operational capacity and DCJ's population projection.[36] However, in its Fiscal Year 2024-2025 supplemental caseload request, the Department did not align its caseload request to DCJ's projection.

  In that request, the Department requested to reduce its caseload-related funding to account for DCJ's Winter Forecast, which revised the Fiscal Year 2024-2025 population projection downward by more than 400 inmates mid-fiscal year. However, rather than

[35] CGL. (2021, January). *Colorado State Prison Utilization Study*. Denver, CO: CGL Companies, LLC, page 59.
[36] This is a simplified description of the Department's approach, which is explained in Finding 1. The Department also considers how many beds are offline for maintenance and applies a vacancy rate.

request a decrease of funding equivalent to 400 beds, the Department changed its methodology and requested to decrease funding for 280 beds and retain funding for 120 beds, which the Department said was to "allow DOC some flexibility should the projections not be accurate." JBC staff referred to this hold back of funds as "a buffer" because the Department had not previously used a "buffer" in its caseload requests, and it did not explain the reason for this change in its methodology or how it arrived at the 120-bed number.

Further, not only was the Department's methodology different than previous caseload requests, but it also differed from the Department's Fiscal Year 2021-2022 request when it needed additional operational flexibility to manage its response to the COVID-19 pandemic. At that time, the Department applied a 7.775 percent vacancy rate to its operational capacity (as opposed to the 2 percent rate typically used at the time).

The decision to maintain a higher operational capacity in light of the sudden change in the population projection may have been appropriate, but the Department introduced a new methodology without providing an explanation of the change and a clear justification for how it determined it needed a buffer of 120 beds. This issue with justifying changes is further described in the next section.

Communication and Justification

The Department does not always fully communicate its methods and justifications for caseload requests. While it can be complicated to succinctly describe all the factors that affect bed availability and decisions to open and close beds across facilities (e.g., beds offline for maintenance, inmate classification, program demands, staffing), the Department further complicates this by using different justifications across years for similar situations, or it fails to provide justification for changes altogether.

- In its Fiscal Year 2023-2024 supplemental caseload request, the Department requested funding to hire additional correctional officers, although it was already unable to fill its currently funded positions. Specifically, the Department requested funds for 200.7 additional FTE while simultaneously noting "the Department is facing an unprecedented staffing crisis...As of January 2023, the Department has *over 1,600 vacancies*." *[Emphasis added]* Further, the request included funds to open an additional 1,583 state prison beds, although it was not even able to open all of the beds it already had funding for at the time, as they did not have sufficient staff to operate them. The Department stated it "is facing a staffing crisis, which *hinders its ability to open the required number of state beds*. If this staffing crisis is not overcome, the Department will have to increase the amount of private beds utilized." [*Emphasis added]* If there was a valid operational reason to request additional FTE and funds to open more beds, the Department's own data and statements did not sufficiently justify the request.

- In its Fiscal Year 2024-2025 initial caseload request, the Department requested funding to open a 100-bed housing unit at Sterling Correctional Facility. The request provided significant detail showing the calculations used to get to the precise assumption of the number of beds that would be needed; however, the Department did not clearly explain how it arrived at the number of FTE that it said were needed to open the unit in question. The request reported the number of FTE by which the Department's budget was reduced in 2021 when the unit in question and two other units were closed and appears to infer the staffing was distributed evenly among the three units at the time of their closure, *but does not directly say so.* In contrast, the Department provides a much clearer explanation and justification of the number of FTE needed to open two units at Buena Vista Correctional Facility in its Fiscal Year 2025-2026 initial caseload request.
- In its Fiscal Year 2024-2025 supplemental caseload request, the Department requested to take 115 beds offline for capital renewal and controlled maintenance projects. Although the Department requested to retain funds for utilities and maintenance costs while these beds were offline, the request was silent on personnel costs and how or whether they would be impacted by this change. It would have been appropriate for the Department to request to retain the associated personnel costs on the grounds that (1) an entire unit is not closing and there is no reduction in staffing needed, or (2) for such short-term maintenance it is not feasible nor efficient to reduce staffing and immediately bring staff back online at the conclusion of maintenance, therefore the staff could be redeployed in the Department to address existing staffing shortages and their costs will remain. However, the Department offered neither of those explanations, nor any other, for why it did not request a reduction in personnel costs.

Inconsistent Terminology

In recent years, the Department has used inconsistent terminology to define its bed capacity. In addition to the commonly accepted "operational capacity," PFM has also seen the Department reference utilized capacity and funded capacity in its caseload requests and internal documents. The corrections field typically uses "operational capacity" to refer to the number of beds available to house inmates. While any one of the terms the Department has used could fit the industry norms for operational capacity, PFM's survey and interviews with state corrections departments, and professional experience, demonstrate it is abnormal for a department to use multiple terms in this manner.

The Bureau of Justice Statistics (BJS) defines operational capacity as "the number of inmates that can be accommodated based on a facility's staff, existing programs, and services."[37] In practice, different corrections professionals may interpret this definition differently with respect to *which beds* are included or excluded in operational capacity based on unique characteristics of each

[37] Bureau of Justice Statistics, "Glossary," accessed January 13, 2025 at https://bjs.ojp.gov/glossary.

system. The Department's definition of operational capacity is consistent with the BJS definition and norms reported among other states:

Operational Capacity = Design Capacity [–] Temporary and Restrictive Beds [–] Unfunded Beds [–] Beds Undergoing Maintenance[38]

The Department uses this definition of operational capacity in its Monthly Population and Capacity Reports that it publishes online each month. The reports state operational capacity excludes beds used for infirmary, intake, and restrictive housing, and includes beds used for clinical purposes, programs, and other special populations. With the exception of the Fiscal Year 2023-2024 budget process as described above in this finding, the Department consistently includes beds for its Residential Treatment Program and other programs in its operational capacity.

However, in recent years the Department has introduced utilized capacity and funded capacity in its budget documents and internal reports. The definitions for these terms are separate and distinct from operational capacity:

- **Funded Capacity:** The Department explained to PFM that in a recent year (not specified), its population increased beyond the number of beds included in its definition of operational capacity. In that year, the Department opened more beds than it had caseload-related funds to operate and sought a way to distinguish funded beds from operational beds. In other jurisdictions, this might be described as emergency capacity; the Department created the term "funded capacity." The Department now uses funded capacity as the agreed-upon baseline number of beds for the caseload request.

- **Utilized Capacity:** The Department explained to PFM that when the Long Bill includes funds to increase capacity, it cannot always adjust staffing to open or close beds immediately at the start of the fiscal year. Moreover, if the population has not *yet* risen to the projected levels, the Department may find it more efficient to wait until the population increases to open and provide staff for the newly approved beds. Therefore, the Department created the term "utilized capacity" as a subset of operational capacity and funded capacity to mean the number of beds that are funded, open, and available for use at any given point in time. In theory, the Department expects utilized capacity to "catch up" or "average out" to the approved funded capacity over the course of the year.

In an effort to be more precise about its capacity, the Department developed a list of bed terminology definitions. While the document is still in draft form, the Department intends to share this document with OSPB and the JBC in 2025 to help clarify how it uses different terms and their definitions. However, in its current form, this list of 22 terms includes many different approaches to defining beds, capacity, and vacancies. For example, a bed can be funded or unfunded, closed or

[38] "Temporary" defined here as "beds reserved for discipline, investigations, holdings, or infirmary services." CGL. (2021, January). *Colorado State Prison Utilization Study*. Denver, CO: CGL Companies, LLC, pages 2 and 17.

open, and populated or vacant. Multiple terms are likely to create more confusion than they may resolve.

Further, the bed terms document does not appear to be comprehensive because the Department continues to use new terms in its caseload requests that are not in this list of terms, which is inconsistent and confusing for comparing its requests year-to-year. For example, in its Fiscal Year 2024-2025 initial caseload request, the Department uses the term "unoccupied beds" without defining it; this term is not used in any other caseload request nor is it in the bed terms document. In its Fiscal Year 2025-2026 initial caseload request, the Department uses the term "facility capacity," which is also not used in any other caseload request nor is it in the bed terms document and is not defined in the caseload request.

Erroneous Information and Incorrect Calculations

We found erroneous information and incorrect calculations throughout the caseload requests we reviewed. Further, the Department's data systems for tracking beds, inmate movement, and relevant funding do not appear to meet the Department's needs. The Department tracks funded beds and open beds manually due to limitations in its information systems, which has led to incorrect information in its internal tracking and budget requests.

- As described in Finding 1, the Department adjusts downward DCJ's inmate population projection to account for inmates who will not be housed in a correctional facility. It does so by applying a three-month rolling average of its in-facility inmate population to the DCJ inmate population projection. In its Fiscal Year 2023-2024 supplemental caseload request, the Department did not adjust the DCJ projection to exclude people who would not be in a correctional facility. If the Department had applied its usual assumption that 92.6 percent of the projected male inmate population would be housed in a state or private prison facility (instead of 100 percent), it would have requested 108 fewer beds than it did.[39]

- In the same Fiscal Year 2023-2024 supplemental caseload request, the Department also misstated that an anticipated population increase of 1,120 people would occur within two years, while its own data table in the document showed the increase of 1,120 people would occur within one year and an increase of 1,906 would occur within two years. This error did not carry over into its caseload-related cost calculations, so there was no financial impact of the error. There is also a discrepancy between the total number of beds stated in the request summary (1,583) and the number of beds broken down by facility (1,585).

- In the Department's Fiscal Year 2025-2026 supplemental caseload request, PFM noted a small calculation error. The Department's caseload request was based on closing 322 beds

[39] The Department requested funds to open 1,453 male beds in the Fiscal Year 2023-2024 supplemental request. In other fiscal years, the Department has first calculated what percentage of the population increase is likely to be housed in a facility, approximately 92.6 percent for male inmates. To estimate how many beds were requested in error, PFM calculated 108 beds by applying 92.6 percent to 1,453 and estimated that the remaining 7.04 percent of beds was requested in error.

in Fiscal Year 2024-2025. While one table calculated the need to close 322 beds, another table and its accompanying summary was based on closing 332 beds. The Department did not indicate in its justification that it needs to close more beds than needed due to the number of beds in closed units (as it has in previous requests), rather it just appears to be conflicting information.

- In its Fiscal Year 2025-2026 supplemental caseload request, the Department noted that it had requested and received funding for an 80-bed unit at La Vista Correctional Facility in Fiscal Year 2022-2023, although the population projection at that time did not indicate a need for those beds. This error was not identified by the Department, rather by JBC staff in Fall 2024, at which point the Department submitted a supplemental request to reconcile the bed count.
- In PFM's review of Department records, we noted that an internal report used to track beds considered funded, actual population, and vacancies incorrectly counted 100 beds as "open" and available to place inmates at Sterling Correctional Facility, when in fact, while the Department had funding for those beds, they were not "open" due to staffing shortages. The Department meets monthly to review funded and open beds and population but had not caught this error in the report.

Why did the problems occur?

A fundamental problem is that the Department does not have thorough, documented processes for developing caseload requests, and has instead relied on staff's institutional knowledge. The Department does not have a detailed policy or procedure that lays out a step-by-step process to develop its caseload request. Budget staff shared with PFM that the Department also does not have a historical accounting of how many beds were considered funded each year due to changes in methodology to calculate capacity and insufficient tracking systems.

Since 2022, the Department has had turnover in many key budget and administration roles, including the Department's Executive Director, the Director and Deputy Director of Finance and Administration, Budget Director, and the Budget and Policy Analyst assigned to developing caseload requests. In tandem, it has not maintained clear, complete, historical records of the methodologies and calculations, so new staff did not have a written history to use when they were hired. This has led to the Department's requests not always being clear, comprehensive, or compelling, and an inability to explain and justify its rationale.

The Department has also not established a common understanding with OSPB and the JBC of how it calculates all the components of its budget requests and has not developed a plan for communicating internally about needs and how to justify changes over time. In addition, the Department lacks a thorough quality control and review process to help ensure its budget request documents are accurate, complete, and consistent across years. For instance, its systems to track budget allocations to facilities, historical expenditures, and which beds have been funded in which facilities are limited and incomplete. This makes it difficult for the Department to provide historical trends and analysis to justify its requests and to internally review the analysis driving its requests.

Why do these problems matter?

The Department's methodological inconsistencies from one year to the next, as well as its failure to provide clear explanations and justifications for its caseload requests, has led to significant legislative concerns with those requests and with the Department's accuracy and transparency. The inconsistencies also make it difficult to track the Department's historical expenditures and hold it accountable for managing to its budget. As a result, the JBC denies certain budget requests or funds the Department at a lower amount than requested. Unless immediate changes are made, the Department may find that it is unable to secure funding even when necessary for standard operations because there are questions about how it tracks, analyzes, and relays information related to caseload requests and concerns with the accuracy of information in the requests.

Recommendation No. 5

The Department of Corrections (Department) should ensure that its caseload requests are accurate and complete, and clearly communicate its requested changes and the methodologies and justifications for those changes by:

A. Developing written internal policies, procedures, and templates that define its caseload methodology and clearly identify how to define and track beds that are considered funded for housing inmates.

B. Assigning staff in the Department's Budget and Business Operations and/or Business Innovations Group to develop templates and other internal mechanisms to track organizational capacity in each facility and at each classification level, funding allocated to each facility by subprogram, and caseload requests year-to-year to allow for easier comparison of changes in costs and FTE.

C. Establishing an improved internal quality control process starting from the budget analysts who develop the request through senior members of the Department's Finance and Administration Division. The quality control process should not only examine accuracy and consistency at every line item, but also test whether the requests have been sufficiently explained and justified. The quality control process should cover the information within each request and a comparison to similar prior year requests. If the Department seeks to change its methodology, it should provide a data-driven justification for the change in its request.

D. Defining the terms used in budget documents and adhering to these terms and protocols in its requests and communications with Office of State Planning and Budgeting and the Joint Budget Committee.

Department of Corrections Response:

A. Agree

Implementation Date: January 1, 2028

The Department agrees with this recommendation. After further discussion with the auditors, the Department interprets this recommendation to have two phases. The first phase is to develop a high-level internal document that defines the current caseload methodology and identifies how to define and track beds considered funded. The Department is committed to developing these prior to November 1, 2025.

The second phase is to develop more robust internal policies, procedures and templates for the new methodology of caseload as promoted by the auditors findings. The Department is committed to creating these documents. However, the Department will have to implement this recommendation after approval of the new caseload methodology by the Governor's Office, the Joint Budget Committee, and the Colorado Legislature. Developing written internal policies and procedures must be done in response to compromises sought during the FY 2026-27 legislative session.

B. Agree

Implementation Date: July 1, 2025

The Department agrees with this recommendation and will be assigning staff to develop templates and track capacity from Budget and Business Operations and the Business Innovations Group. As mentioned in the previous response, this will be both for the short-term, high-level procedures, as well as the longer-term new caseload methodology.

C. Agree

Implementation Date: August 30, 2025

The Department currently has an internal quality control process which includes layers of review, from the Budget Manager, Budget Director, Directors over the subject-matter-experts who provided information to the budget office, Finance and Administration Director, Deputy Executive Director, Executive Director, and Office of State Planning and Budgeting staff. The Department recognizes that this has lengthened the time to complete the process, without flagging some of the submission errors. The Department appreciates the findings in the report, particularly around the need to better explain our assumptions and methodologies in requests, and acknowledges the need for enhanced quality assurance protocols and efficiency within the review process. The Department also recognizes the value of clear definitions, ensuring refined and replicable sourcing for any data provided, as well as ensuring all submissions either match previous ones, or specifically explain differences. The Department has since started working on various check-lists and training documents for our budget office to ensure increased accuracy of requests. The Department is continuing to refine the internal quality control process to ensure accuracy and consistency. This will include looking at past submissions and explaining changes from those, where applicable.

D. Agree

Implementation Date: November 1, 2025

The Department agrees with this recommendation and plans to submit a term sheet to the Governor's Office for review during the summer of 2025. The final submission will be part of the Governor's budget on November 1, 2025.

CHAPTER 3: CASH FUND MANAGEMENT AND INMATE FEES AND WAGES

The Department of Corrections (Department) maintains several cash funds, which are statutorily designated funds, each with a specific purpose established by law. See Table 3 in Chapter 1 for a list of these funds. The two largest of these cash funds, the Correctional Industries Account cash fund and the Canteen, Vending Machine, and Library Account cash fund (referred to as the Canteen cash fund throughout this Chapter), accounted for almost 90 percent of the Department's total cash fund revenue in Fiscal Year 2023-2024.

Colorado Correctional Industries (CCI) and the Canteen are business-like operations ("enterprises") established by statute. These enterprises are staffed by Department employees and inmate workers, all of whom are compensated solely from revenue generated by the sale of goods and services produced through these programs. The CCI is comprised of multiple business enterprises, or "shops," each producing a good or service for sale to government entities or private-sector consumers. The Canteen is a distribution center through which the Department purchases necessities and amenities from external vendors and sells them to inmates (through the commissary) and visitors (via vending machines in the visitor areas of prisons).

The Department selects the lines of business to operate within the CCI and the products to be sold to inmates and visitors to the prison through the Canteen, sets the pricing for all products and services, and establishes wage rates for inmate workers. See Table 22 for a list of the 15 CCI shops and examples of Canteen products sold.

Table 22. Correctional Industry Shops and Canteen Products

Correctional Industries Shops	Canteen Products (Categories and Examples)
• K-9 Companion Training • Garment Manufacturing • License Plate and Highway Sign Production [required by Section 17-24-109(1), C.R.S.] • Metal Manufacturing • Culinary Program • Image Processing (E-470 Tollway Images) • Wild Horse Inmate Program (WHIP) • Print Shop • State Wildland Inmate Fire Team (SWIFT) • Heavy Equipment • Farm • Leather Shop • General Services • Surplus • Coffee Roasting	• Medical formulary (over-the-counter medications) • Health and beauty (including hygiene products) • Women's specialties • Hobby supplies • Religious merchandise • Beverages and tokens for vending machines • Food and snack items • Phone time • Music and video streaming • Greeting and holiday cards

Source: Correctional Industries Annual Report, Canteen Product Markup Policy

The Department also derives a small amount of cash fund revenue from fees paid by inmates for medical services (co-payments and missed appointment fees), which are set by the Department, paid by inmates, and recorded in cash fund accounts in the Medical Services Subprogram for the Department [Section 17-1-113, C.R.S.]. See Appendix C for additional inmate fees and surcharges collected by or transferred to the Department.

What work was performed and what was the purpose?

PFM analyzed the Department's use and management of its two largest cash funds (Correctional Industries and the Canteen); money it receives from fees paid by inmates; and the wages it pays to inmates. PFM reviewed the Department's budgeting practices for these cash funds, its methods for setting prices for goods and services sold, inmate fees and wages, and its use of cash fund revenues.

PFM interviewed Department staff and reviewed Department administrative regulations, policies, and statutes relevant to the CCI and Canteen cash fund accounts, price setting, inmate pay, and existing fees charged to inmates. We also analyzed data and annual reports to quantify and validate the information gathered through interviews, research, and document review. Our analysis included:

- Schedule 9 cash fund reports for the CCI and Canteen accounts for Fiscal Year 2016-2017 through Fiscal Year 2025-2026
- The three most recent annual reports for each fund (CCI Annual Reports Fiscal Years 2020-2021, 2021-2022, and 2022-2023; Canteen Annual Reports Fiscal Years 2021-2022, 2022-2023, and 2023-2024)
- Expenditure and spending plan data for inmate benefit expenditures made from the Canteen account; expenditure reports were provided for Fiscal Years 2021-2022, 2022-2023, and 2023-2024. The spending plan was provided for Fiscal Year 2024-2025 and contained prior year data going back to Fiscal Year 2019-2020
- The most recent inmate pay plan for each business enterprise (for Fiscal Year 2024-2025)

The purpose of this work was to assess whether the Department's processes for managing the CCI and Canteen cash fund accounts, and for setting prices, fees and wages, comply with relevant statutory and regulatory requirements and if they are consistent with applicable best practices.

The work performed produced Findings 5 through 8 related to cash fund management and inmate fees. While there are no findings related to setting inmate wages and setting prices for goods sold to inmates from the Canteen,[40] we have included a brief overview of how the Department sets inmate wages and Canteen prices to address the questions posed by the General Assembly in House Bill 24-1462, codified in Section 2-3-130, C.R.S., and the associated Request for Proposals released by the Office of the State Auditor (see Appendix C).

[40] With the exception of Finding 9, which addresses Canteen prices for health and hygiene items only.

Finding 6 – Budgeting for Correctional Industries Account

Correctional Colorado Industries is managed by the Director of Correctional Industries [Section 17-24-104(1), C.R.S.] and advised by the Correctional Industries Advisory Committee [Section 17-24-104(2)(a), C.R.S.]. As established by Section 17-24-104(2)(a), C.R.S., the Advisory Committee consists of 13 members, including the executive director of the Department, state treasurer, four members of the General Assembly, director of the Governor's Office of State Planning and Budgeting (OSPB), executive director of the Department of Personnel & Administration, two members of affected industries in the business community, two members of organized labor, and a county sheriff. The Advisory Committee is responsible for evaluating the feasibility of proposed new lines of business and the advisability of issuing revenue bonds to finance CCI operations [Section 17-24-104(5), C.R.S.].[41] The Advisory Committee meets approximately quarterly with Department staff, who provide updates about the account.

The Department must submit a proposed, annual CCI budget to the Advisory Committee on January 1 [Section 17-24-113(7), C.R.S.]. Additionally, it is required to provide regular financial reports – including monthly operating statements and annual financial reports – to the Governor, Joint Budget Committee (JBC), and OSPB [Section 17-24-113(6), C.R.S.].

When preparing the CCI budget request, the Department creates individual budgets for each of the shops operated by CCI. These budgets are then aggregated into a single request and submitted in the Schedule 9 report to OSPB and the JBC as part of the annual budget process for the next fiscal year starting July 1.

Recent Scale and Profitability Context

As of Fiscal Year 2024-2025, CCI operates 15 shops (see Table 22 above), excluding the Canteen, which is budgeted separately. Its customers primarily consist of local, state, and federal government entities. In Fiscal Year 2022-2023, the most recent year for which an annual report was published, CCI employed 543 inmates across its operations.

While CCI has generally not been profitable over the past decade – expenses exceeded revenues for nine consecutive years – it achieved positive net cash flow in the two most recent fiscal years (Fiscal Years 2022-2023 and 2023-2024). Additionally, the CCI account had a negative ending fund balance for most of the past decade. However, current statutes and Department policies do not mandate that CCI operate profitably. Specifically, recent legislative changes [SB 25-050 amending Section 17-24-106, C.R.S.] removed previous language emphasizing profitability to offset

[41] According to Section 17-24-104(1), C.R.S., CCI operates as a government enterprise under Article X, Section 20 of the Colorado Constitution. This status limits the revenue CCI can receive from state and local governments combined to no more than 10 percent of its annual revenue and grants the authority to issue revenue bonds.

incarceration costs. Instead, the primary purpose of CCI is now stated in statute to be "developing programs that promote successful rehabilitation, reentry, and reintegration into the community."

The CCI cash fund is an account in the State Treasury. When the fund balance is negative at fiscal year-end, the Department pays interest to the State Treasury from CCI revenues in the following fiscal year at the current market rate. As shown in Table 23, the CCI ending fund balance for Fiscal Year 2023-2024 was negative $7.7 million; as of March 2025, the Department anticipated that the fund balance will approach zero at the end of Fiscal Year 2024-2025, after ten years ending in the red.

Profitability has varied among individual CCI shops. Improved financial performance in recent years is partially attributed to a 2022 restructuring, which resulted in the closure of several underperforming shops (furniture manufacturing, dairy production, and fishery operations). Nonetheless, the Department allows some shops to operate less profitably than others if it determines they effectively advance the statutory goal of inmate rehabilitation and successful community reintegration.

Table 23: CCI Account Cash Flow, Fiscal Year 2013-2014 to Fiscal Year 2023-2024*

Fiscal Year	Revenue	Expenses	Revenue (-) Expenses (Net Cash Flow)	Ending Fund Balance**
FY 2013-2014	$47,052,371	$47,070,778	$(18,407)	$23,473,986
FY 2014-2015	$48,876,690	$50,336,798	$(1,460,108)	$(4,532,268)
FY 2015-2016	$50,846,535	$55,128,616	$(4,282,081)	$(9,268,088)
FY 2016-2017	$47,766,986	$56,414,890	$(8,647,904)	$(17,915,993)
FY 2017-2018	$56,399,445	$71,417,355	$(15,017,910)	$(34,320,637)
FY 2018-2019	$48,711,367	$50,874,166	$(2,162,799)	$(4,745,402)
FY 2019-2020	$37,180,345	$43,882,844	$(6,702,499)	$(39,125,469)
FY 2020-2021	$34,965,885	$37,838,897	$(2,873,012)	$(22,194,586)
FY 2021-2022	$33,246,847	$36,247,923	$(3,001,076)	$(21,005,104)
FY 2022-2023	$26,256,055	$26,049,153	$206,902	$(15,307,475)
FY 2023-2024	$26,064,507	$24,450,477	$1,614,030	$(7,722,197)

Source: Department of Corrections Schedule 9 Reports

* Schedule 9 reports provide two prior years of actuals. Values in this table are the most recently reported actual for each fiscal year as reported in Schedule 9 reports.

** Fund balance includes all assets and liabilities for the cash fund; change in fund balance is not expected to equal net cash flow in year.

How were the results measured?

PFM used the following criteria to evaluate the Department's budgeting processes for the Correctional Industries cash fund account:

- Sections 17-24-113(6) and (7), C.R.S., which require the Department to make regular reports to the JBC and OSPB including monthly operating statements and annual financial reports and requires submission of a proposed annual budget on January 1 of each year.
- DOC Administrative Regulation 450-10(IV)(C), Correctional Industries Business Management, which requires the CCI management team to review and monitor the profitability of each business enterprise (or shop) at least quarterly using actual performance data.
- Government Finance Officers Administration (GFOA) provides guidance on accurately budgeting and forecasting for organization-owned funds as a best practice, stating organizations should, "establish a formal set of processes for comparing budget to actual results."[42]
- We also considered that Department staff told us their goal is to align cash fund budget requests as closely to actuals as possible.

What problems did the work identify?

PFM's review found a consistent pattern of Department budget requests for the CCI Account exceeding actual expenditures by a large – and growing – margin. In each year reviewed (Fiscal Year 2016-2017 through Fiscal Year 2023-2024), Department requests for CCI Account expenditure authority exceeded actual expenditures. As shown in Table 24, the gap between requested expenditure authority and actual expenditures increased during the period, with the requested authority being more than double actual expenditures in Fiscal Year 2022-2023 and Fiscal Year 2023-2024. During the period reviewed, annual expenditure authority requests decreased by 4.5 percent, while actual expenditures decreased by 56.7 percent.

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[42] Government Finance Officers Association. (2018). *"Best Practices: Budget Monitoring,"* GFOA, accessed January 31, 2025 at https://www.gfoa.org/materials/budget-monitoring.

Table 24: CCI Expenditure Requests, Appropriations, and Actuals: Fiscal Year 2016-2017 to Fiscal Year 2024-2025

Fiscal Year	Spending Authority Requested	Amount Appropriated (Long Bill)	Actual Expenditures	Request Over (Under) Appropriation	Request Over (Under) Actual	Request Percent Over (Under) Actual
FY 2016-2017	$55,802,364	$57,322,750	$56,414,890	($1,520,386)	$(612,526)	-1.1%
FY 2017-2018	$64,036,210	$64,273,837	$71,417,355	($237,627)	$(7,381,145)	-10.3%
FY 2018-2019	$53,735,000	$63,888,979	$50,874,166	($10,153,979)	$2,860,834	5.6%
FY 2019-2020	$56,610,000	$64,954,373	$43,882,844	($8,344,373)	$12,727,156	29.0%
FY 2020-2021	$71,250,000	$64,105,804	$37,838,897	$7,144,196	$33,411,103	88.3%
FY 2021-2022	$61,150,000	$64,617,954	$36,247,923	($3,467,954)	$24,902,077	68.7%
FY 2022-2023	$57,150,000	$53,897,883	$26,049,153	$3,252,117	$31,100,847	119.4%
FY 2023-2024	$53,300,000	$53,052,628	$24,450,477	$247,372	$28,849,523	118.0%
7-Year % Change	**-4.5%**	**-7.4%**	**-56.7%**	**116.3%**	**4,809.9%**	

Sources: Colorado Department of Corrections Schedule 9 Reports Fiscal Year 2016-2017 to Fiscal Year 2025-2026; Long Bill Operating Agency Budgets for Fiscal Year 2016-2017 through Fiscal Year 2023-2024

The Department's Administrative Regulation 450-10, Correctional Industries Business Management, requires the CCI management team to review and monitor the profitability of each business enterprise (or shop) at least quarterly using actual performance data. Considering this, and the Department's statutory responsibilities outlined in Section 17-24-113, C.R.S., it is reasonable to expect the Department to closely monitor actual expenditures as part of its effective fund management and to ensure that these realities are accurately reflected in its budget requests.

Why did the problem occur?

Annual CCI budget requests have increasingly exceeded actual expenditures primarily because the Department did not consistently incorporate CCI shop restructuring decisions into budget requests. The Department prepares individual budgets for each CCI shop and they are aggregated into a single CCI budget, and subsequently used to develop the comprehensive Schedule 9 report. However, the Department continued to include some CCI shops in the budget calculations even though the shops had been downsized or eliminated, leading to inflated budget requests. For example, the furniture manufacturing shop had $12.1 million in expenditures in Fiscal Year 2020-2021 before the shop was closed the following year. However, the Department continued to include the furniture manufacturing shop budget in CCI's Fiscal Year 2021-2022 budget request (as submitted in the Schedule A Report), thus overstating anticipated expenditures.

Why does the problem matter?

Since Fiscal Year 2016-2017, the Long Bill appropriations for CCI spending authority have closely tracked the amount requested. This pattern underscores the importance of accurate requests, as the requested amount directly determines the amount appropriated.

As an enterprise fund, an inflated budget request for CCI typically does not directly impact General Fund appropriations for the Department or other agencies. However, consistent overestimation of expenditures for the CCI Account diminishes the accuracy of budget projections and reduces the Advisory Committee's ability to provide well-informed guidance – particularly when evaluating new business initiatives and potential bond issuances. Furthermore, ongoing discrepancies between budget requests and actual performance risk eroding the Department's credibility and trust among key external budgeting partners, such as the JBC and OSPB.

Recommendation No. 6

The Department of Corrections (Department) should improve its process for budgeting for Colorado Correctional Industries (CCI) revenues and expenditures to consistently align its requests closely to actual needs and operational decisions. Specifically, the Department should:

A. Incorporate into its annual budget process a comparison of actual revenues and actual expenditures to budgeted revenues and appropriated expenditures, respectively, for the fund.

B. Regularly compare actual revenues and expenditures for each shop with each shop's budget and allocation from the appropriated amount.

C. Determine if there is a typical margin by which the annual CCI budget request may reasonably exceed anticipated expenditures in order to provide the flexibility needed in case revenues or expenditures are higher than anticipated.

D. Update department regulations, as needed, to include procedures for developing annual CCI budget requests to incorporate these changes.

Department of Corrections Response:

A. Agree

   Implementation Date: July 1, 2025

   Colorado Correctional Industries (CCI) will incorporate this into the budget process starting July 1, 2025.

B. Agree

   Implementation Date: July 1, 2025

Since June 2023, Colorado Correctional Industries (CCI) meets monthly with leadership to review budgets as well as a larger deep dive with all managers quarterly to review budgets, profits and losses, and sales projections. Starting July 1, 2025, this review will address comparisons to appropriations.

C. Agree

Implementation Date: September 1, 2025

Colorado Correctional Industries (CCI) will look historically over the last 10 years to review the typical margin that was achieved. This will then inform future submissions that will allow for flexibility for additional sales or expenditures.

D. Agree

Implementation Date: July 1, 2026

CCI is already reviewing both internal processes as well as legislation and will be in compliance by July 1, 2025. CCI will continue to work on updating both the internal processes and CCI legislation by July 1, 2026.

Finding 7 – Tracking the Use of Canteen Profits for Inmate Benefit Expenditures

The Canteen cash fund account supports the day-to-day operations of the Canteen by funding expenses such as purchasing goods then sold to inmates and visitors, Department personnel costs, inmate wages, and other operating costs. Revenue from sales and investment income is deposited into the account. Profits (net of operating costs) are used to benefit inmates, as required by Section 17-24-126(3), C.R.S. Inmate benefit expenditures typically include education services (including supplies and GED tests), inmate recreation (such as cable TV and recreational equipment), and capital improvements related to programming and family visitation.

From Fiscal Year 2020-2021 through Fiscal Year 2023-2024, the Canteen's average operating revenues and expenses were $21.8 million and $19.6 million, respectively – leaving $2.2 million in net profits, on average. Annual inmate benefit expenditures averaged $2.5 million per year during the same period, or 116 percent of net profits; thereby meeting the statutory requirement to direct profits to inmate benefits.

Table 25: Canteen Account Profit & Inmate Benefit Expenditures, Fiscal Year 2020-2021 to Fiscal Year 2023-2024

Fiscal Year	Operating Revenues	Operating Expenses	Net Operating Income (Profit)	Inmate Benefit Fund Expenditures	Inmate Benefit Expend. as % of Profit
FY 2020-2021	$18,948,621	$17,844,580	$1,104,041	$3,051,945	276.4%
FY 2021-2022	$24,485,743	$19,860,190	$4,625,553	$3,163,121	68.4%
FY 2022-2023	$23,244,036	$20,279,887	$2,964,149	$2,108,250	71.1%
FY 2023-2024	$20,422,538	$20,357,528	$65,010	$1,840,742	2,831.5%
Average	**$21,775,235**	**$19,585,546**	**$2,189,688**	**$2,541,015**	**116.0%**

Source: Colorado Department of Corrections, Canteen Annual Reports: Fund Statement of Revenues, Expenses, and Changes in Net Position

Use of Canteen account funds is supervised by the Canteen, Vending Machine, and Library Account Committee ("Canteen Committee"), and the Director of the Department's Finance and Administration Division is responsible for recordkeeping and fund accounting (per DOC Administrative Regulation 200-11, Canteen). To carry out these responsibilities, the Department produces and distributes (to Department employees and inmates) a Canteen Annual Report containing financial statements for the account. Inmate benefit expenditures are manually identified and assigned to one of four codes in the State's accounting system, the Colorado Operations Resource Engine (CORE) (shown in Table 26 below). Separately, the Canteen Committee develops an approved spending plan for inmate benefit expenditures each year.

How were the results measured?

PFM used the following criteria to evaluate the Department's processes for tracking and using Canteen cash fund profits for inmate benefit expenditures:

- Section 17-24-126(1), C.R.S., which requires Canteen revenue to be used to support Canteen operations; and Section 17-24-126(3), C.R.S., which requires profits beyond those required to support Canteen operations to be used for inmate benefit expenditures.
- DOC Administrative Regulation 200-11(IV)(J), Canteen, which establishes responsibilities of the Canteen, Vending Machine, and Library Account Committee to act as trustees for the Canteen cash fund account and defines their responsibilities to include following statutory definitions of how net profits may be expended [relating to Section 17-24-126(3), C.R.S.].
- DOC Administrative Regulation 200-11(IV)(K), Canteen, which requires the Director of the Finance and Administration Division or their designee to account for revenue and expenditures, distribute financial statements, and administer the relevant accounting systems.
- Governmental Accounting Standards Board (GASB), Statement No. 37, which increased the recommended level of detail that should be reported for enterprise funds in basic financial statements (issued June 2001). Specifically, the standard requires different identifiable activities to be accounted for separately, in which an identifiable activity is defined as one that has a specific revenue stream and related expenses and gains and losses that are accounted for separately. For example, if an enterprise fund accounts for both water and an electric utility, each would be a separate identifiable activity.

What problem did the work identify and why does it matter?

PFM's review determined that the Department's systems for tracking inmate benefit expenditures from the Canteen Account do not provide sufficient transparency and accuracy. Specifically, PFM identified the following issues:

1. There is not a transparent method of tracking actual inmate benefit expenditures within the approved spending categories. Inmate benefit expenditures are tracked through accounting reports and reported out in annual reports using different categories, neither of which directly correspond to categories shown in the approved spending plan. As shown in Table 26 (Column A), Canteen Account expenditures are identified as an inmate benefit expenditure if they are assigned to one of four codes in CORE. These 4 codes are less specific than the 16 categories identified in the approved spending plan (Column B) or the 9 expense groups used to categorize inmate benefit expenditures in annual reports (Column C). The Department does not have codes in CORE that directly correspond to the categories in the approved spending plan and annual report expenditure reporting. There are sufficient differences among these tracking mechanisms to make it difficult for the Canteen

Committee to "review the available General Fund and Canteen Account fund balances, and recommend use of the Canteen, Vending Machine, and Library Account funds to executive management and the Budget Office for inclusion in the budget process," and "Follow statutory definitions of how net profits may be expended," as is required by policy [DOC Administrative Regulation 200-11(IV)(J)(4) and (5), Canteen].

Table 26: Inmate Benefit Expenditure Categories

[A] Expenditure Accounting	[B] Approved Spending Plan	[C] Canteen Annual Reports
Appropriation Code • **CCCBHE26C:** Cash funds for Education Subprogram appropriated in the Long Bill • **CCACPE21C**: Additional allocations to the Education Program • **CCDCHR26C:** Cash funds for Recreation Subprogram appropriated in the Long Bill • **CCACP003C:** All other general inmate benefit expenses	Long Bill Funding • Education Operating • Recreation Operating • Volunteers Off-the-Top Allocations • Education • Cable/Satellite TV for Inmates • Education Inmate Transcription Program • Inmate Network System • Resident Benefit • Library • Inmate E-Message Supplies • Rental Motor Pool Charges • Video License • Prison Arts Initiative • Movies and Radio Other Categories • Capital Construction Projects • Contingency Projects	Expense Group • Cable TV Fees and Equipment Maintenance • Recreational Equipment and Supplies • Education/Library Equipment • Computers and Computer Supplies • Improvements and Maintenance to Recreation, Vocational Education, and Library areas • Books and Subscriptions • Education Supplies, Operating, and GED Tests • Beauty, Barber, Grooming Supplies • Other

Source: Canteen Allocations Fiscal Year 2025, ES-012 Expenditures by Appropriation Fiscal Years 2021-2022 to 2023-2024, and Canteen Annual Reports Fiscal Year 2021-2022 to 2023-2024 provided by the Department

2. There were small but frequent differences between expenditure amounts recorded in different reports provided by the Department. While the differences were small relative to the total amount of expenditures – ranging from $1 to $26,268 out of approximately $2.5 million in annual expenditures – they occurred in each of the three years for which PFM reviewed detailed data. This observation, coupled with PFM's understanding of the manual process by which inmate benefit expenditures are tracked, undermines the accuracy and reliability of these data. Table 27 shows the differences in expenditure amounts that we identified in different reports.

Table 27: Total Inmate Benefit Expenditures (Actual), Fiscal Year 2020-2021 through Fiscal Year 2023-2024

	FY 2021-2022	FY 2022-2023	FY 2023-2024
Canteen Annual Report	$3,163,121	$2,108,249	$1,822,344
Expenditure Accounting (ES-012 Spreadsheet)	$3,136,853	$2,108,250	$1,840,742
Difference - Canteen Report Minus ES-012	**$26,268**	**$(1)**	**$(18,398)**

Sources: Colorado Department of Corrections, Canteen Annual Reports and "ES-012 Expenditures by Appropriation: Inmate Benefit expenses" CORE Data

3. External reporting (Schedule 9) does not show the amount of net operating profits nor the amount of inmate benefit expenditures. As a result, external agencies such as OSPB and the JBC who may reasonably expect to find information about whether the Department is meeting statutory requirements for use of the fund [as laid out in Section 17-24-126(3), C.R.S.], will not find such information in the Schedule 9 report. Further, OSPB and the JBC do not have direct access to the internal Canteen Annual Report, which does provide that information.

   Additionally, GASB's standards for enterprise fund accounting call for each significant, identifiable activity to be disaggregated in reporting. In the context of the Canteen account, it would be reasonable to consider inmate benefit expenditures to be an identifiable activity separate from other canteen operating expenditures (GASB Standard No, 37), and thus, they should be reported separately.

Why did this problem occur?

The Department's current processes for tracking and reporting on Canteen account expenditures, including operating expenditures and inmate benefit expenditures, have evolved over time within the context of the Department's available data systems. Each report PFM reviewed was created for a distinct purpose. For example, the Department's Approved Spending Plan report uses spending categories that have been set by the Canteen Committee and Department leadership, while the accounting records are recorded using available object codes in CORE. When each reporting process was established, it does not appear that the ability to crosscheck data between the reports was a priority.

With respect to discrepancies in the total amounts reported for expenditures in the different systems, there are two primary causes: (1) the Department uses manual processes to identify and report on inmate benefit expenditures, and manual processes are inherently error prone, and (2) the different ways of breaking up expenditures in the different reports may serve the needs of each report's primary user(s), but they increase the opportunities for data entry or calculation errors to occur.

With respect to external transparency, the primary cause is an absence of guidance on the matter. Neither annual budget instructions provided by OSPB nor DOC Administrative Regulation 200-11, Canteen provide guidance on the level of detail that should be included in Canteen account expenditure reporting to external audiences (e.g., Schedule 9 reports or other reports to OSPB, the JBC, or the public).

Recommendation No. 7

The Department of Corrections (Department) should improve the transparency and accuracy of Canteen account reporting on inmate benefit expenditures by:

A. Updating the list of expense categories the Department uses in the Canteen Annual Report and the approved spending plan so the two align and information about approved spending and actual expenditures can easily be compared and monitored over time, as appropriate, and clearly defining the reporting categories in writing.

B. Reviewing the available categories of inmate expenditures in the State's financial systems, establishing clear guidelines for staff to follow to ensure consistent data entry, and creating a crosswalk between the guidelines and Department-set categories for reporting once those are determined.

C. Reporting expenses for inmate benefits as a distinct activity in Canteen account reporting.

D. Consider publishing its Canteen Annual Reports online as it does its Correctional Industries Annual Reports and providing them directly to the Joint Budget Committee and the Office of State Planning and Budgeting.

Department of Corrections Response:

A. Agree

Implementation Date: January 5, 2026

DOC and the Canteen committee will update the list of expense categories for the annual report. This report will have allocations and expenses for each fiscal year to compare and monitor. An updated table comparing approved allocations and annual inmate benefit expenditures will be created and included in the Canteen Annual Report.

B. Agree

Implementation Date: July 1, 2026

The Department will review all available expenditure categories and evaluate options to determine if an alternate category (i.e. fund or unit) should be used when recording inmate benefit expenditures. Staff will be retrained and provided guidance documents on the allocations and categories for expenditure classifications when any changes are made.

C. Agree

Implementation Date: July 1, 2026

Inmate benefits are reported as a distinct activity in the Canteen Annual Report, which will begin being provided to the Joint Budget Committee and Office of State Planning and Budgeting during Fiscal Year 2026; however, the Department will also work with these entities to determine the most appropriate way to delineate between canteen operating and inmate benefit expenses when completing additional Canteen account reporting.

D. Agree

Implementation Date: January 5, 2026

Canteen will start to provide the previous year's annual report with the yearly January 5th budget submission. This will align the submission with other submissions. Canteen Annual Reports will also be made available online via the Correctional Industries website.

Finding 8 – Medical Co-Payment Fees

Evaluator's Note: During the 2025 Legislative Session, the General Assembly passed House Bill 25-1026, which prohibits the Department from assessing copayment fees for inmates for medical, dental, mental health, or optometric services, including specialty or emergency care services. The Bill also prohibits the Department from assessing a fee when an inmate fails to attend or refuses a specialty health-care appointment. As of May 30, 2025, when this report was printed, the Bill was still awaiting the Governor's signature. If this Bill is enacted, this finding will no longer be relevant.

As of May 2025, statute [Sections 17-1-113(2) and (4)(a), C.R.S.] requires the Department to establish a medical co-payment fee, not to exceed five dollars per visit or the cost of services provided. Section 17-1-113(4)(d), C.R.S., also gives the Department discretion to establish specific services for which the co-payment will be assessed, waived, or reduced.

The Department's current medical co-payment fees and procedures are established in DOC Administrative Regulation 700-30, Offender Health Care Co-Payment Program, as summarized in Table 28.

Table 28: Inmate Medical Fees

Fee Name	Description*	Fee Amount
Standard co-pay fee	Assessed for inmate-requested healthcare services; excluded services are named in policy (e.g., intake health screening, dialysis, disability evaluations)	$3.00
No-show fee	Assessed for failure to attend a scheduled appointment unless canceled by notifying clinical staff at least one hour before the appointment	$3.00
Co-pay fee for self-declared emergencies	Assessed for self-declared emergencies including those that may or may not require transport outside of the facility	$5.00
Specialty referral refusal fee	Assessed for external and on-site specialty health care services to include referrals to specialists/sub-specialists if the inmate refuses to attend the scheduled appointment(s)	$25.00

Source: DOC Administrative Regulation 700-30, Offender Health Care Co-Payment Program
*Descriptions provided in this table are intended to summarize and provide context; they are not a complete record of the services for which each fee is charged or waived.

How were the results measured?

PFM used the following criteria to evaluate the Department's current inmate medical fees and its processes for setting those fees:

- Section 17-1-113 (2), C.R.S., which provides that the Department shall assess a co-payment for medical, dental, mental health, and optometric services provided, not to exceed $5 for each inmate-initiated health care visit.
- Section 17-1-113 (4), C.R.S., which provides that the Department "shall establish written procedures relating to medical, dental, mental health, and optometric service copayments, which procedures shall address, but need not be limited to ... the amount of the copayment to be assessed, ... the specific services for which a copayment will be assessed, waived, or reduced, ... [and] the specific and exclusive bases upon which a copayment may be waived."
- DOC Administrative Regulation 700-30(V), Offender Health Care Co-Payment Program, which requires annual review of the Department's Offender Health Care Co-Payment Program policy.
- The National Commission on Correctional Health Care's (NCCHC) 2022 position statement, which provides guidance on financial assessments for health care services during incarceration.[43]

What problem did the work identify?

The $25 Specialty Referral Refusal Fee established in Department regulations as a co-pay significantly exceeds the maximum $5 amount allowed by statute for medical co-payment fees [Section 17-1-113(2) and (4)(a)].

Why did the problem occur and why does it matter?

Statutory compliance

Up to this point, the Department has taken the position that the specialty appointment refusal fee, although established alongside the co-payment fees in the co-payment policy, is not a co-payment fee. Further, the Department stated it determines the amount of its medical co-payment fees based on the requirements in statute [Section 17-1-113(1)(b) and (2)], and DOC Administrative Regulation 700-30(V)(A), Offender Health Care Co-Payment Program, which requires the director of the

[43] National Commission on Correctional Health Care Services. (2022). "Eliminating Financial Assessments for Health Care Services During Incarceration," accessed January 24, 2025 at https://ncchc.org/position-statements. The position statement makes a case for elimination of inmate health care fees; then, recognizing such fees exist in many jurisdictions, provides detailed guidelines for jurisdictions that choose to use inmate health care fees to reduce the risk of negative consequences of their implementation.

Clinical and Correctional Services Division and the chief medical officer to review the co-payment policy annually and update it as necessary.

However, in its December 13, 2024 budget hearing before the JBC, a committee member asked the Department to "describe its medical co-pay fees that inmates pay by fee type (e.g., visit co-pay, no show)…" Although the Department's exclusion of the specialty appointment refusal fee in its response is consistent with the Department's interpretation of the fee, the phrasing of the question confirms that at least one member of the General Assembly considers "medical co-pay fees" to include fees for missed appointments.[44]

Because neither Section 17-1-113, C.R.S., nor DOC Administrative Regulation 700-30, Offender Health Care Co-Payment Program, define the term "co-payment fee" or other types of medical fees, and because Section 17-1-113, C.R.S., does not provide for the establishment of other types of medical fees, PFM concludes the correct legal interpretation is unclear and warrants further review.

Effect on Access to Inmate Health

Charging a $25 fee may be onerous to inmates and creates a risk that they will not seek needed care. Generally, inmates have limited funds available to them. For example, the primary source of income for inmates is payment for work, which ranges from about $1 to $177 per day, with most inmates earning amounts on the lower end of that range. Accordingly, the NCCHC recommends elimination of all fees for medical services to increase access to health care for inmates.

During the 2025 Legislative Session, the General Assembly passed House Bill 25-1026, which prohibits the Department from assessing copayment fees for inmates for medical, dental, mental health, or optometric services, including specialty or emergency care services. The Bill also prohibits the Department from assessing a fee when an inmate fails to attend or refuses a specialty health-care appointment. As of May 30, 2025, when this report was printed, the Bill was still awaiting the Governor's signature. Assuming the Governor signs the Bill, the issue identified in this finding will no longer be a concern since the Department will no longer be able to charge inmates for refusing to attend a health-care appointment. However, in the event that this Bill is not signed or enacted into law, the issue raised in this report related to the $25 fee for an inmate who refuses to attend a specialty referral health-care appointment would still be a concern and the Department should seek legal clarification on its authority to charge such a fee, reassess the amount of the fee charged, and update Department rules and/or policies accordingly.

Recommendation No. 8

The Department of Corrections (Department) should ensure the Specialty Referral Refusal Fee is compliant with existing statute by:

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[44] Colorado Department of Corrections, "Presentation to the Joint Budget Committee: 12/13/2024," pages 31-32, accessed January 28, 2025 at https://leg.colorado.gov/sites/default/files/fy2025-26_corhrg_0.pdf.

A. Seeking legal clarification regarding whether this fee falls under the allowable medical fees defined in statute and, if so, does the statutory limit of $5 apply to this fee.

B. Implementing a documented fee-setting methodology that provides for the fee to be reasonable based on the costs incurred by the Department for a missed specialty appointment, including an annual cost-benefit analysis to determine if the benefits of the fee (i.e., revenue) exceed the direct and indirect costs of administration.

C. Updating Department regulations regarding this fee, as needed, based on the results of Parts A and B.

Department of Corrections Response:

A. Agree

Implementation Date: August 1, 2025

The Department agrees with this recommendation regarding the $25 Specialty Referral Refusal Fee. If HB 25-1026 is signed into law, this will clarify for the Department that we are not allowed to charge copays or any fees for medical attention, including specialty referral fees. If HB 25-1026 does not get signed into law, the Department will seek legal clarification regarding fees with the Attorney General's office and what is allowable.

B. Agree

Implementation Date: October 1, 2025

If HB 25-1026 is not signed into law, the Department will work with our external medical partners to implement a new documented fee-setting methodology informed by a cost-benefit analysis. The Department looks forward to providing this cost-benefit analysis by October 1, 2025. If HB 25-1026 is signed into law, this will clarify for the Department that we are not allowed to charge copays or any fees for medical attention, including specialty referral fees.

C. Agree

Implementation Date: October 1, 2025

The Department endeavors to be transparent about the fees it receives, both with inmates and the public. If HB 25-1026 is not signed into law, the Department will update regulations regarding this fee based on the analyses from Parts A and B. If HB 25-1026 is signed into law, the Department will have to update regulations regarding statute change, and will do so by the above date as well.

Finding 9 – Guidelines for Medical Fee Setting

Evaluator's Note: During the 2025 Legislative Session, the General Assembly passed House Bill 25-1026, which prohibits the Department from assessing copayment fees for inmates for medical, dental, mental health, or optometric services, including specialty or emergency care services. As of May 30, 2025, when this report was printed, the Bill was still awaiting the Governor's signature. If this Bill is enacted, the issues identified in this finding related to assessing copayment fees will no longer be relevant.

In addition to setting the amount of medical fees, DOC Administrative Regulation 700-30, Offender Health Care Co-Payment Program, establishes the medical conditions and other circumstances under which each fee will, or will not, be charged. The administrative regulation sets processes for fee collection and for inmates to request a credit for a fee they believe was incorrectly charged. The content of the policy is determined by the Department's chief medical officer per DOC Administrative Regulation 700-01, Responsibility and Organization of Clinical Services.

What problems did the work identify and how were they measured?

PFM used the NCCHC guidelines for financial assessments of health care services for incarcerated individuals to evaluate the Department's current inmate medical fee policy. It is worth noting, that while the guidelines are not regulatory requirements, the ideas put forth in the guidelines appear to be consistent with the academic literature.[45] PFM's review found there are three areas in which the Department's medical co-payment policy (Administrative Regulation 700-30, Offender Health Care Co-Payment Program) does not appear to conform to the NCCHC guidelines for prisons collecting medical fees.

Excluded Conditions

The guidelines list specific medical conditions or circumstances for which no charges should be assessed. The Department's policy likewise provides a list of services for which a co-pay fee will not be charged. The Department's policy includes most of the recommended exclusions; however, PFM found the policy on co-payment charges for acute care to be ambiguous.

The Department's policy does not define acute care as a distinct category of services. It does, however, establish a $5.00 co-payment fee for "self-declared emergencies that may or may not require transport outside of the facility." Notably, the fee for self-declared emergencies is a higher co-payment fee than for other inmate-initiated health services.

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[45] For example, NCCHC's guidelines center on the position that medical fees in prisons should be reduced or eliminated to maximize access to care which is consistent with research that found the presence of medical co-pays exceeding one week's wage for inmate work was correlated with reported rates of inmates not receiving necessary care, even if the co-pays did not apply to the specified necessary care. Lupton Lupez, Emily, et al. (2024). "Health, Access to Care, and Financial Barriers to Care Among People Incarcerated in US Prisons". *JAMA Internal Medicine,* 184(10):1176-1184.

The Department confirmed inmates may or may not be charged a co-payment for acute care depending on the circumstances. For example, an inmate who receives acute care required following an assault may incur a charge, whereas a co-payment fee would not be charged for care needed due to a work-related injury.

Administration of the Fee Program

The NCCHC guidelines also address the processes of setting, collecting, and evaluating fee programs. There are two elements of these recommendations that the Department's current policy does not appear to meet.

- **Separation of health care professional from fees:** Guidelines state that "health care professionals [should] have no role associated with any fee from patients." Under the Department's policy, clinical staff are responsible for determining whether a medical request is related to a chronic condition (for which the co-payment fee can be waived).
- **Evaluation of the impact of fees:** NCCHC recommends jurisdictions should conduct an annual cost-benefit analysis to determine the need for medical fees and the costs related to administering fees. Further, the guidelines recommend that jurisdictions should track indicators that may suggest requests for care are disincentivized due to fees. Such indicators may include infection levels of communicable diseases or incidents of delayed diagnosis and treatment of serious medical problems. The Department has a Quality Management Program responsible for identifying system issues that may compromise inmate health care and outcomes, but it does not conduct this type of cost-benefit analysis of the impact of fees.

Cost of Essential Items for Daily Living

The NCCHC guidelines recommend inmate medical fees should not reduce access to "necessary hygiene items (e.g., shaving accessories, menstrual supplies) and over-the-counter medications and should allow for a minimum balance in a commissary account or other means for such essentials of daily living."

The Department makes hygiene items available from the Canteen at cost (not free) and charges a 21 percent mark-up for over-the-counter medication and other medical formulary items. DOC Administrative Regulation 850-11(IV)(K)(4), Offender Clothing and Bedding Issue, Dress Code, Hygiene, and Grooming, states that inmates who lack sufficient funds to purchase basic hygiene items through the Canteen may still obtain a basic hygiene kit or individual hygiene items, with the costs debited to their offender account. This means inmates can temporarily overdraw their accounts but must reimburse the cost once funds become available.

Why did the problems occur?

Although the Department's medical co-payment policy addresses many of the other considerations highlighted in the NCCHC guidelines, the Department has not compared its policy against the guidelines to identify areas where its policy does not conform or determined whether variance from the guidelines is appropriate.

During the 2025 Legislative Session, the General Assembly passed House Bill 25-1026, which prohibits the Department from assessing copayment fees for inmates for medical, dental, mental health, or optometric services, including specialty or emergency care services. As of May 30, 2025, when this report was printed, the Bill was still awaiting the Governor's signature. Assuming the Governor signs the Bill, the issues identified in this finding related to assessing copayment fees will no longer be a concern since the Department will no longer be able to charge inmates copayment fees for healthcare services. However, in the event that this Bill is not signed or enacted into law, the issues raised in this report related to charging inmates copayment fees would still be a concern and the Department should assess and revise its policies, as needed.

Why do these problems matter?

Prison inmates have disproportionately poorer physical and mental health outcomes than do members of the general public.[46] Moreover, researchers have proposed that prison health care systems present a "rare public health opportunity to screen and treat a young, marginalized, and diseased group."[47] Efforts to increase access to health care for inmates such as those described in the NCCHC position statement aim to protect the constitutional rights and health of incarcerated individuals, and simultaneously improve community-wide public health outcomes.

The Department's medical co-payment policy may create a risk of financial disincentive for some inmates to seek health care, which would undermine the Department's stated program objectives to provide "unimpeded access to a continuum of healthcare services so that the healthcare needs of the incarcerated population, which includes health education and prevention, are met in a timely and efficient manner."[48]

Recommendation No. 9

The Department of Corrections (Department) should assess its medical co-payment policy against National Commission on Correctional Health Care guidelines to identify any areas where the policy is inconsistent with the guidelines. Based on this assessment, the Department should determine if policy revisions are needed to further the Department's program objectives, which may include:

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[46] Office of Disease Prevention and Health Promotion, "Incarceration," accessed January 30, 2025 at https://odphp.health.gov/healthypeople/priority-areas/social-determinants-health/literature-summaries/incarceration.

[47] Fazel, Seena and Jacques Baillargeon. (2010). "The Health of Prisoners." *Lancet*. Epub 2010 Nov 18. PMID: 21093904, accessed January 30, 2025 at https://citeseerx.ist.psu.edu/document?repid=rep1&type=pdf&doi=95cfbc5e8c90d2022231e3bcf5c5c07531fa8e75.

[48] Colorado Department of Corrections, "Colorado Department of Corrections Performance Plan: FY 2023-2024," accessed January 30, 2025 at https://leg.colorado.gov/sites/default/files/images/doc_performance_plan.pdf.

A. Eliminating the co-payment for self-declared emergencies.

B. Defining acute care and exempting it from co-payment fees.

C. Clearly stating that post-partum care and preventative healthcare are exempt from co-payment fees.

D. Designating an existing central administrative role to determine applicability of fees in individual cases that is separate from facility health care teams.

E. Reducing or eliminating the cost of selected hygiene and medical formulary products.

Department of Corrections Response:

A. Agree

Implementation Date: October 1, 2025

The Department will assess its medical co-payment policy, but may assess the policy against other national standards, such as the American Correctional Association or another accrediting body. However, the Department will start with assessment in the areas noted by the PFM report, including self-declared emergencies and acute care.

If HB 25-1026 is signed into law, the copayment would be eliminated, and no assessment would be needed.

B. Agree

Implementation Date: October 1, 2025

The Department will assess its medical co-payment policy, but may assess the policy against other national standards, such as the American Correctional Association, or another accrediting body.

If HB 25-1026 is signed into law, the copayment would be eliminated, and no assessment would be needed.

C. Agree

Implementation Date: October 1, 2025

The Department does not currently charge for postpartum care and preventative healthcare. However, the Department will make it more clear that postpartum care and preventative healthcare are exempt from co-payment fees. We will update the policy based on the passage of HB 25-1026 or the results of the assessment based on national standards.

D. Agree

Implementation Date: October 1, 2025

The Department has a review process that occurs at a local administrator level. The first review is done by the Health Services Administrator (HSA), or designee, at the facility-level. If the inmate disagrees with the determination, through the grievance process, a secondary review occurs by a regional HSA located at headquarters. This is in the Department's current Administrative Regulation; however, the Department will review and refine the AR to make this more clear and to ensure that the review is clearly delineated from the facility health care teams as recommended.

E. Agree

Implementation Date: October 1, 2025

The Department has reduced and sometimes provides selected hygiene and medical formulary products free of cost.

For those who cannot afford to pay for Canteen products, indigent packs are provided. These include a small bottle of toothpaste, institutional toothbrush, small bottle of shampoo, and a small bar of soap.

If inmates request clinical services for over-the-counter medication, and there is a medical need, staff from clinical services provide the medication. Canteen also offers over-the-counter medication for a fee.

The Department will work to create a comprehensive list of all products that are provided to inmates. The Department will review, determine, and update the products that are offered to inmates for hygiene and medical formulary products. AR and policy on products will be updated and implemented.

Appendix A: List of State and Private Prison Facilities

Table 29: State and Private Prison Facilities Capacity and Population, March 31, 2025

	Design Capacity*	Operational Capacity**	Facility Population	Vacancy Rate***
Arkansas Valley Correctional Facility	1,105	1,029	1,023	0.6%
Arrowhead Correctional Center	524	520	515	1.0%
Buena Vista Correctional Complex	1,396	1,034	1,025	0.9%
Centennial Correctional Facility	1,284	936	878	6.2%
Colorado State Penitentiary	756	725	686	5.4%
Colorado Territorial Correctional Facility	1,001	921	912	1.0%
Delta Correctional Center	485	381	184	51.7%
Denver Reception and Diagnostic Center	638	570	594	-4.2%
Denver Women's Correctional Facility	1,016	768	688	10.4%
Four Mile Correctional Center	525	521	521	0.0%
Fremont Correctional Facility	1,664	1,601	1,550	3.2%
La Vista Correctional Facility	585	570	492	13.7%
Limon Correctional Facility	966	938	895	4.6%
Rifle Correctional Center	204	192	183	4.7%
San Carlos Correctional Facility	255	255	215	15.7%
Skyline Correctional Center	126	126	84	33.3%
Sterling Correctional Facility	2,584	2,320	2,135	8.0%
Trinidad Correctional Facility	508	500	496	0.8%
Youthful Offender System****	0	0	4	n/a
State Prison Subtotal	**15,622**	**13,907**	**13,080**	**5.9%**
Bent County Correctional Facility	1,465	1,387	1,397	-0.7%
Crowley County Correctional Facility	1,868	1,493	1,509	-1.1%
Private Prison Subtotal	**3,333**	**2,880**	**2,906**	**-0.9%**
State and Private Prison Total	**18,955**	**16,787**	**15,986**	**4.8%**

Source: Design Capacity and Operational Capacity sourced from Colorado Department of Corrections, April 8, 2025 New Monthly Population and Capacity Report (internal document); Facility population sourced from Colorado Department of Corrections, Monthly Population and Capacity Report, March 31, 2025

*Per the Department's definition, Design Capacity is the number of inmates a prison is intended to hold when it was built or modified, including non-capacity and temporary beds.

**Per the Department's definition, Operational Capacity is the number of permanent beds at a prison excluding non-capacity beds unless otherwise specified due to emergency needs.

***Calculated by dividing Facility Population by Operational Capacity.

***Youthful Offender System (YOS) population is not reported in the Monthly Population and Capacity Report publicly available on the Department's website. On April 8, 2025, internal reports reflected an additional YOS population of 197.

Appendix B: Glossary of Key Report Terms

Budget and Finance Terms

- **Cash Fund:** A "cash fund" is a distinct pool of money typically funded by revenue sources such as fees, fines, or other dedicated receipts. It is used to finance specified programs or operations, as authorized by the General Assembly or controlling statutes. The critical feature of a cash fund is that it does not generally rely on general tax revenues – rather, it is "cash-funded" by the designated revenue stream.

- **Enterprise Fund:** An "enterprise fund" is a self-supporting governmental fund that operates similar to a private business enterprise. Revenues in the enterprise fund primarily come from fees charged to users of the service, and these fees are intended to fully cover the fund's operating costs.

- **Fixed Costs:** Expenses that remain relatively constant regardless of fluctuations in inmate population (up to the facility's capacity limits). These often include lease or debt payments on buildings, basic utilities that are largely unaffected by small changes in population, or certain salaried administrative positions that do not vary with the inmate count.

- **Full Time Equivalent (FTE):** The workload of one full-time employee. Typically, one FTE corresponds to 40 hours per week (or a standard set by the state's employment rules). Part-time or temporary staff can be combined to total a single FTE.

- **Marginal Costs:** Additional costs incurred when one more unit of service is produced or one more "unit" (in corrections, typically one more inmate) is added. It focuses specifically on variable or incremental changes rather than the total cost spread across all inmates.

- **Shift Relief Factor:** A multiplier applied to each post (i.e., established position within a correctional facility assigned to a physical location and/or specific job) to determine the number of FTEs required to cover the post continuously. In a 24/7 correctional environment, officers may be scheduled for 40 hours per week, and staff take leave for vacation, training, sick days, and other absences in addition to scheduled days off. The relief factor accounts for these predictable absences by calculating how many personnel are needed in total to fill one post continuously.

- **Step-Fixed Costs:** Costs that remain constant within certain capacity thresholds but "step up" to a higher cost level when those thresholds are exceeded. In other words, they are fixed over a range but jump to a new fixed level once demand crosses a specific point. In corrections, staffing costs will typically remain steady despite small changes in inmate population, until the population change is sufficient to require a section of the prison to be opened or closed thereby affecting the number of scheduled staff.

- **Variable Costs:** Costs that fluctuate directly (or closely) with the level of inmate population or service demand. As inmate numbers rise or fall, variable costs, like food or prescription medications, move correspondingly.

Corrections Terms[49]

- **Average Daily Population (ADP):** The average of daily inmate population counts, typically taken at the same time each day over a year; it is not uncommon for some jurisdictions to substitute the average of 12 data points taken at the same time and date each month.

- **Design Capacity:** The number of inmates that planners or architects intended for a facility.[50]

- **Emergency Capacity:** Defined differently by different jurisdictions, typically the maximum number of inmates that can be housed over a short-term period; emergency capacity may include use of additional temporary beds in day rooms, double bunking in single cells, or similar adjustments.

- **Rated Capacity:** The number of beds or inmates assigned by a rating official to institutions within a jurisdiction.[51]

- **Operational Capacity:** The number of inmates that can be accommodated based on a facility's staff, existing programs, and services.[52]

- **Classification factor:** A calculation to account for the number of beds needed within individual classification categories (e.g., minimum, maximum, protective custody) based on fluctuations in the number of each type of inmate throughout the year.[53]

- **Peaking Factor:** A calculation to account for short-term spikes in inmate population based on population fluctuations throughout the year.

- **Warden:** The administrative head of a correctional facility (Section 17-1-102(9), C.R.S.), similarly understood and defined in other jurisdictions.

[49] Terms that are used commonly throughout the corrections profession. If formal definitions exist, they are cited, otherwise definitions provided reflect the PFM team's professional experience in the field.
[50] Bureau of Justice Statistics
[51] Bureau of Justice Statistics
[52] Bureau of Justice Statistics
[53] Prison Policy Institute; JFA & Associates

Appendix C: Overview of Inmate Fee and Inmate Wage Processes (No Audit Findings)

Below are brief summaries addressing three key questions raised in Section 2-3-130, C.R.S., and the subsequent Request for Proposals issued by the Office of the State Auditor, gathered through research, interviews, and data reviews. These topics did not result in audit findings but are provided here for completeness.

How does the Department of Corrections (Department) determine the rates for user fees charged to inmates?

Medical fees are discussed separately in the main report. The following other fees were identified:

- **Sex Offender Surcharge:** This fee is not set by the Department. The Colorado Judicial Department assesses a surcharge (fine) of $150 to $3,000 for conviction of specified sex offenses (Section 18-21-103, C.R.S.). Revenues are managed by the Sex Offender Management Board, which allocates a portion of these funds to the Department for operation of sex offender treatment programs (Section 16-11.7-105, C.R.S.). The Department received $31,734 in Fiscal Year 2024-2025 (House Bill 24-1430).
- **Telephone User Fees:** Until September 1, 2023, inmates paid full cost for telephone services charged by the vendor (Securus), which was $0.019 per minute. Since September 1, 2023, Section 17-42-103, C.R.S., requires the Department to subsidize inmate phone costs – the Department currently covers 37% of inmate phone costs, or $0.007/min. The telephone user fee for inmates were expected to be eliminated, with costs covered fully by the Department, effective July 1, 2025. However, the Department submitted a supplemental request during the Fiscal Year 2025-2026 budget process to request a legislative change that would allow the Department to continue charging inmates 50 percent of the cost through Fiscal Year 2025-2026. The Governor signed S.B. 25-208 which requires the Department to cover 75 percent of inmate phone call costs in Fiscal Year 2025-2026 and 100 percent in Fiscal Year 2026-2027.
- **Court-ordered fines and fees:** Inmates may be required to make payments for court-ordered restitution, child support, attorneys fees, or other court-ordered fines, fees, surcharges and filing charges. These amounts are recorded in the inmate banking system; they are not retained as revenue for the Department.
- **Department administrative regulations establish charges to inmates to offset specific costs incurred by the Department for** photocopies and historical records of inmate bank accounts [DOC Administrative Regulation 200-02(IV)(13), Inmate Banking], replacement fees for lost or damaged library items and state property [DOC Administrative Regulation 500-02, Library Services], and damages to property, drug testing, abuse of clinical services [DOC Administrative Regulation 150-01, Code of Penal Discipline].

How does the Department determine the wages paid to inmates who work for Colorado Correctional Industries (CCI)?

For context, it is useful to understand that many inmates carry out jobs while housed in state facilities. Typical jobs in each prison facility include janitorial and kitchen assignments. CCI employs a subset of employees (543 in Fiscal Year 2022-2023) in business enterprises, or "shops," such as K-9 training and garment manufacturing (see Table 22 for the complete list of CCI shops).

Inmate pay for CCI is set for each shop individually and reviewed annually by CCI and the Department's Finance and Administration Division. The Department shares CCI inmate pay scales with the Correctional Industries Advisory Committee for informational purposes (external approval is not required). As described to PFM in interviews, Department staff consider the following priorities when setting CCI inmate employee pay *(not listed in a ranked order)*:

- Offering higher pay than most institutional work assignments and, thereby, incentivizing inmates to choose to work in CCI,
- Incentivizing high quality work, often with incentive payments tied directly to the quality and volume of goods produced,
- Paying more for work that requires more skill, training, or responsibility, often through wage scale steps that increase with tenure and responsibility and differ for each shop, and
- Profitability of CCI.

A subset of the CCI shops operate as partnerships with private industry, as authorized by federal regulation under the Prison Industry Enhancement Certification Program (PIECP). Under PIECP, private companies, which may sell goods to anyone, including the general public, contract with the Department to hire inmates directly. Inmates employed under PIECP must be paid the local prevailing wage per federal regulations.

Inmate pay for non-CCI work assignments is set by the Department's Inmate Pay Committee. Wages reflect job desirability and required skill or level of responsibility. Changes to inmate pay amounts require legislative approval – the rates were last approved in Fiscal Year 2024-2025, through House Bill 24-1430, Decision Item R-11.

Table 30: Daily and Annual Inmate Wages by Work Assignment

Inmate Work Type	Daily Wage	Annual Wage
Correctional Industries	$1.81 to $177.36	$471 to $46,114 (Typically about $1,810)
CCI PIECP (Private Employers)	$115.36 to $148.40	$29,994 to $38,584
All other inmate work assignments	$0.98 to $5.23	$255 to $1,360

Source: DOC Administrative Regulation 850-03, Offender Assignment and Pay; Colorado Department of Corrections, Offender Pay Plan Master Spreadsheet FY25 and CCI PIE 10th Percentile Data (2024); Department interviews

How does the Department determine the price of the items available for purchase through the Canteen?

Prices must cover costs and yield a reasonable profit (Section 17-24-126(3), C.R.S.). Staff set prices based on wholesale costs plus a markup schedule, as shown in Table 31. Prices are benchmarked within 5% of external market rates.

Table 31: Canteen Product Markup Schedule

Product Group	Description	% Markup on Wholesale Price
At Cost	Personal essentials such as sunscreen, deodorant, toothbrushes and toothpaste; stamps; phone time	0%
Categories 1,4,6	Medical formulary, health/beauty	21%
Categories 0,2,3,5,8,9	Food, snacks, hobby items	26%
Category 7	Greeting/holiday cards	31%

Source: “Canteen Services Policies and Procedures: Product Markups” provided by Department