



Correctional Industries: Planning, pricing and market share

Joint Legislative Audit and Review Committee

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Audit questions



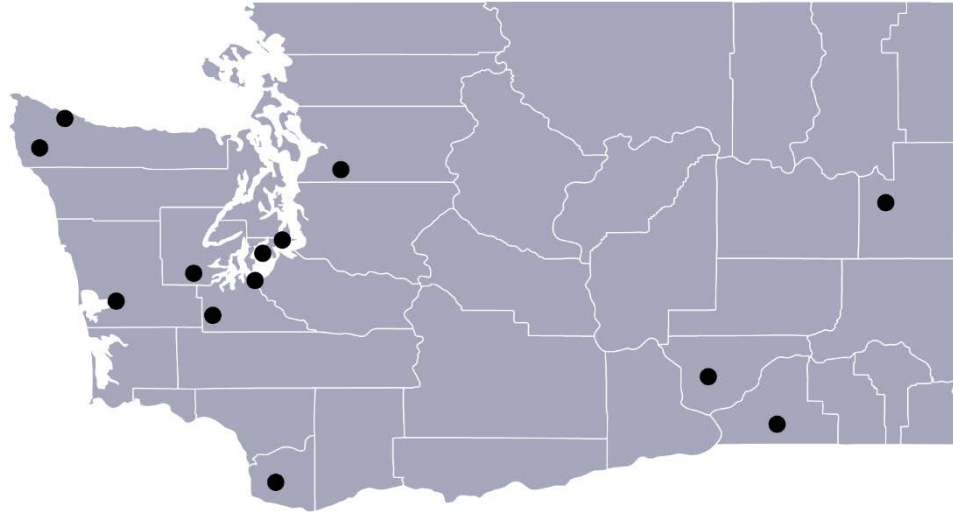
1. How effective is Correctional Industries (CI) in maintaining and expanding its inmate work training programs?
2. Does CI price products in such a way that meets its legal requirements and goals?
3. Does CI compete unfairly with Washington businesses?

Key findings

1. Formal tools and policies would help CI plan for and manage successful industries
2. Most of the 12 products we tested were priced competitively. However, CI needs a written pricing policy to ensure it sets competitive prices, reinvests in its industries, and reduces public support costs
3. Most of CI's industries operate below a self-imposed 3 percent market share cap

About Correctional Industries

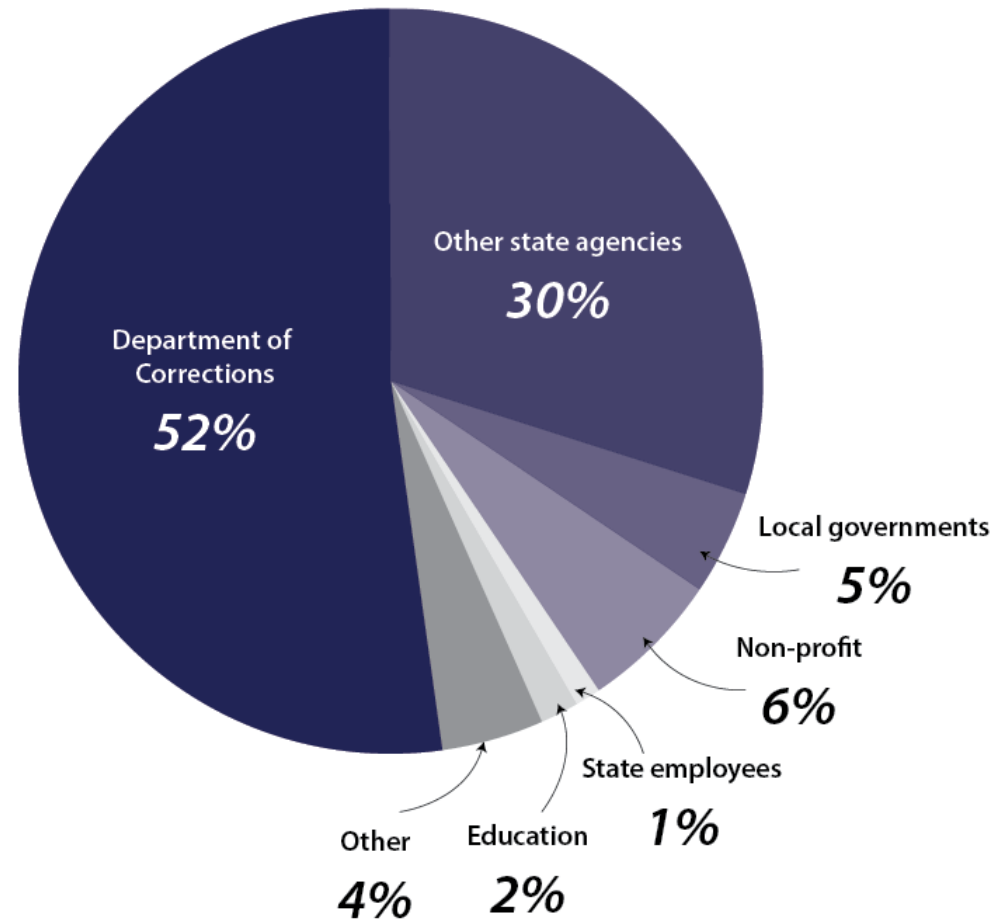
- A work-training program for inmates in state prisons



- We focused on “Class II” programs – those industries that produce goods and services for state agencies and others
- Inmates who participate in CI programs have better post-release outcomes than other inmates

Department of Corrections is CI's primary customer

- CI sells most of its goods and services to DOC and other state agencies
- Revenue:
 - \$104 million in fiscal year 2016
 - \$110 million in fiscal year 2017 (est.)



Methodology

- Identified leading practices from 2 industry associations and 6 other states
- Compared CI's processes to leading practices
- Compared a selection of CI product prices to comparable private-sector prices
- Assessed CI's measure of its impact on private businesses

Industry Associations

National Correctional Industries Association (NCIA)

American Correctional Association (ACA)

Comparison states

Arizona

California

Indiana

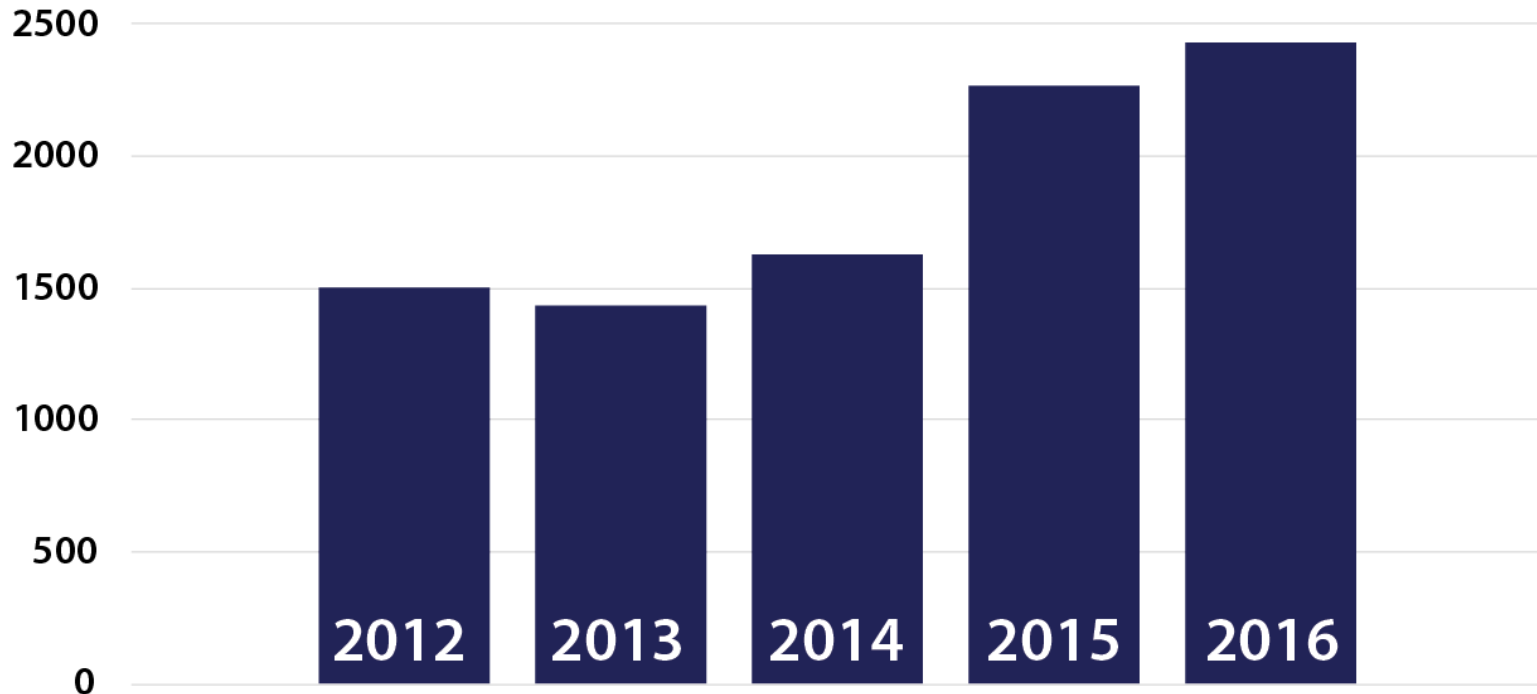
Maryland

Minnesota

North Carolina

CI has successfully increased its number of inmate workers

Number of Class II inmates, end of fiscal year



- Since fiscal year 2012, CI has increased Class II inmate workers by about 900
- Most of this increase came from expanding food service

CI could improve its business planning processes

CI needs to make these financial assessments when planning for new industries:

- Assess profitability and customer demand to verify they will be financially self-sustainable
- Project profitability to assess benefits vs. costs

Without necessary financial assessments ...

Example of negative impact: Tilapia farm

- CI did not ensure that there was customer demand for its tilapia farm
- Without a dedicated customer, CI closed the farm in 2015
- Net operating loss of nearly \$200,000



Resources necessary for success

CI needs to determine the availability of these needed resources when planning for new industries:

- Availability of inmates and CI staff
- Capacity of CI support staff
- Availability of inmate workers who have required certifications or specialized training

When those resources are not in place ...

Example of negative impact: Food service

- Assuming food service at several prison facilities placed more strain on CI's HR staff than anticipated
- CI hired additional staff to ease workload
- This in part delayed CI's planned expansions



Marketable job skills for inmates

CI needs to determine whether inmates will learn in-demand job skills from new industries

- CI must teach inmates relevant job skills
- CI should also consult directly with local businesses
- However, CI does not incorporate labor market data into its business plans

Impact on private businesses

CI needs to determine how businesses will be affected by new industries

- Although CI must not compete unfairly with Washington businesses, CI does not assess this in its business plans
- CI may unknowingly start an industry that unfairly competes with businesses

CI could improve its business management processes

CI could improve its management practices:

- Inquire directly with businesses to regularly reassess whether existing industries still provide marketable skills
- Solicit additional customer feedback and track trends
- Establish industry-specific performance measures

When customer demand is not reassessed ...

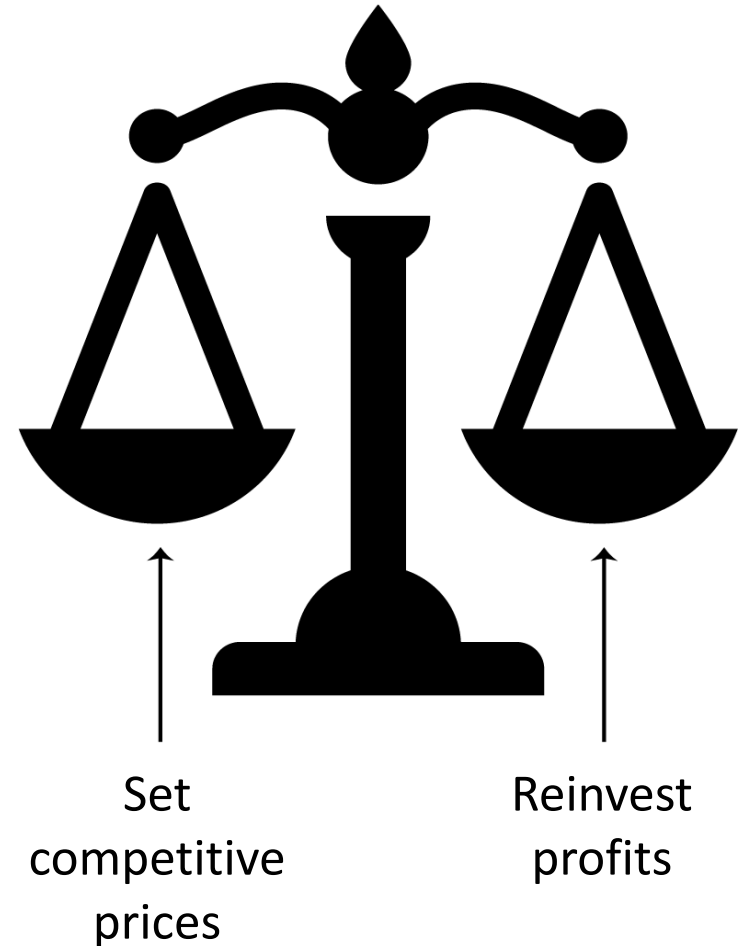
Example of negative impact: Recycling

- CI operated a recycling program for 5 years that lacked sufficient customer demand to cover its costs
- Closed in 2015 with a net operating loss of about \$900,000



Product pricing requirements

- State law requires CI to balance these mandates:
 - Design its Class II industries to reduce cost of goods and services to agencies
 - Reinvest its profits to expand and improve program operations
- The law also prohibits CI from undercutting Washington businesses



Product price comparison

How we conducted price comparisons:

- 5 Class II industries:

Textiles



Boxes



Food



Communications

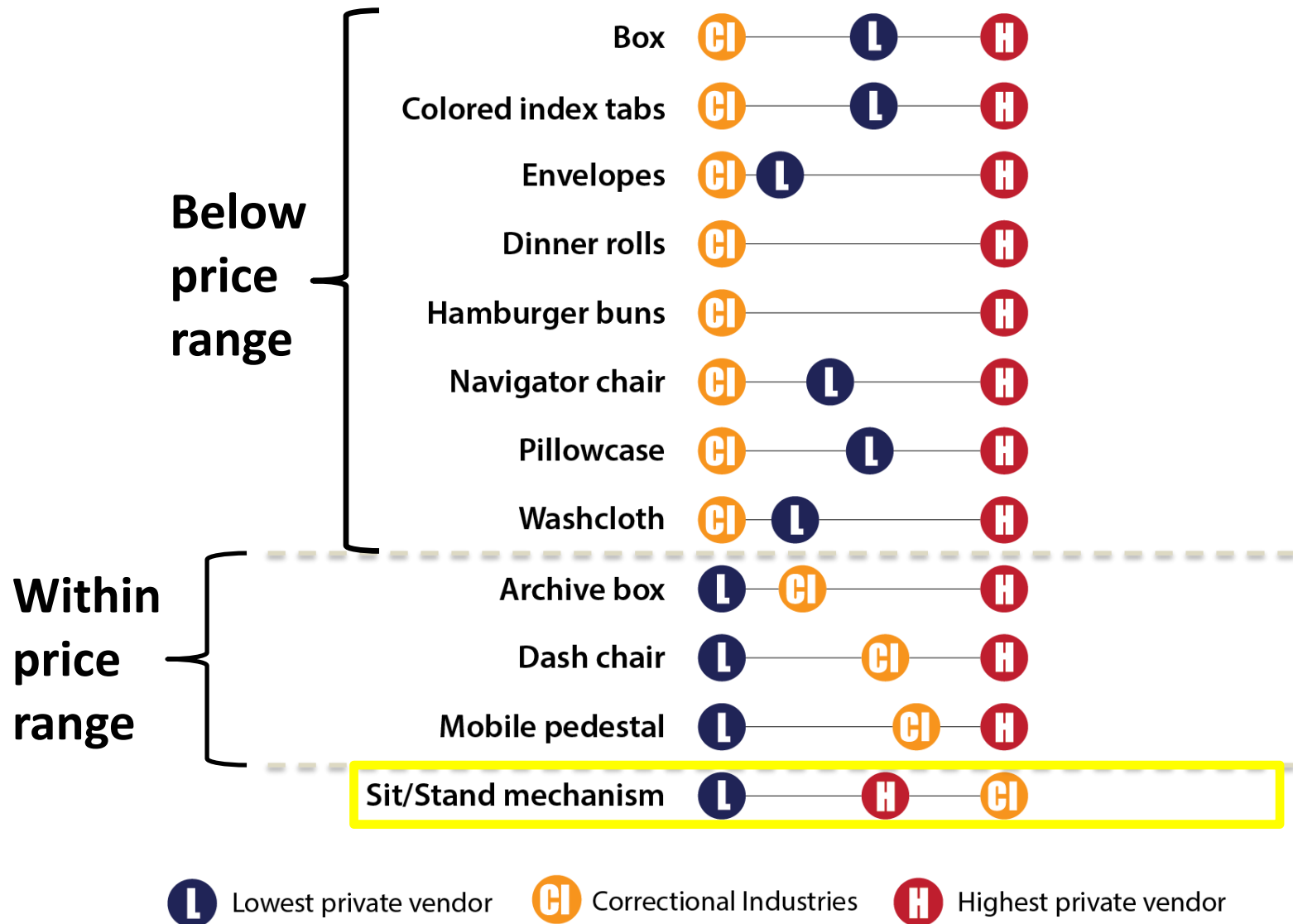


Furniture



- 12 high-volume products
- 3 comparable vendors in most cases

Does CI offer agencies competitive prices?



Pricing policy framework

An effective pricing policy establishes a basis for:

- Price comparisons to the private market and documentation of the results
- Formal price approvals
- Periodic price reviews for possible adjustments

What we found

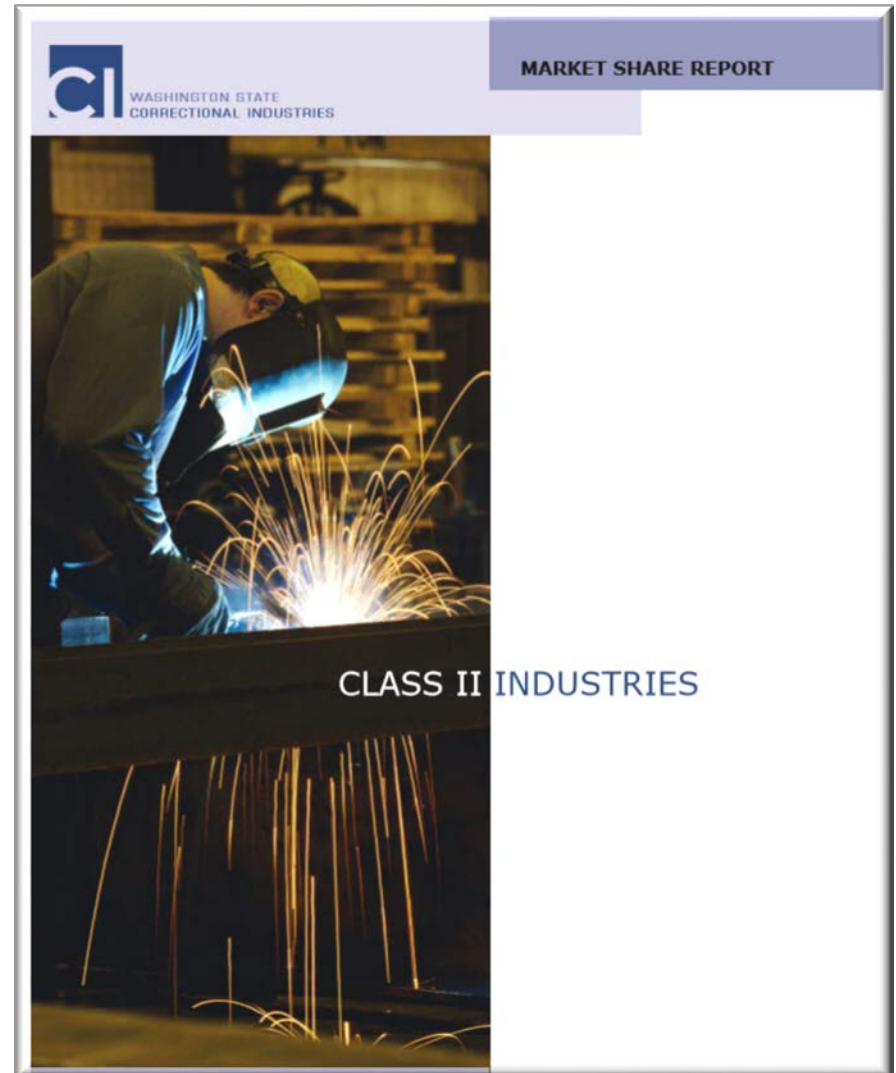
CI lacks an agency-wide pricing policy that includes:

- Consistent practices for conducting market comparisons
- Formal processes for:
 - Approving industry prices
 - Reassessing prices

CI is developing a formal pricing policy and expects to implement it by July 2018

Does CI unfairly compete with Washington businesses?

- Legal requirements:
 - State law is unclear about what “unfair competition” means
 - CI Advisory Board established a 3 percent cap on market share
- CI’s market share report shows that 14 of the 16 Class II industries are under 3 percent



Recommendations in brief

To CI:

- Establish a formal business planning policy for new and expanding industries
- Develop a documented process to regularly assess the demand for skills taught to inmates based on private industry input and labor market data
- Improve efforts to obtain customer feedback on prices and products
- Develop, track and publish additional industry-specific performance measures
- Establish a formal agency-wide pricing policy

Recommendations in brief

To the Legislature:

- Clarify RCW 72.09 to explain how CI should measure compliance with unfair competition restrictions for its Class II industries

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