



Performance Audit

Correctional Industries: Planning, pricing and market share

May 4, 2017

In Washington, about one-third of all inmates released will reoffend or violate conditions of their release within five years and return to the correctional system. The Correctional Industries (CI) program offers inmates a chance to gain skills that make it more likely they will find jobs later. Over a four-year period, CI has increased the number of inmate workers from about 1,500 to more than 2,400.

However, we found CI has experienced challenges when expanding its existing industries and planning for new ones. Some challenges arose due to the loss of a contractor, but most problems were primarily due to a lack of formal planning tools and related policies. We also examined pricing. We found most of the products we examined were priced lower than similar products offered by other vendors, but CI lacks a written pricing policy to ensure it establishes and maintains competitive prices. Such a policy would also help it fulfill its statutory requirement to reduce costs for tax-supported agencies and nonprofit agencies.

The law restricts CI from competing with private businesses, but it does not specify how CI should measure its compliance with this restriction. The CI Advisory Board set a 3 percent market cap guideline, and we noted that sales by CI industries for the vast majority of its industries do not exceed it.

Applying leading practices would help CI more effectively plan for and manage successful industries, and set competitive prices that achieve sufficient profit for reinvestment. Clarifying the Legislature's intent for addressing competition would also help CI more accurately evaluate its impact on local business.



Table of Contents

Executive Summary.....	3
Introduction	6
Background	7
Scope and Methodology	11
Audit Results	13
Recommendations.....	24
Agency Response.....	25
Appendix A: Initiative 900.....	30
Appendix B: CI Industries and Locations	31
Appendix C: Results of Pricing Comparisons	33

The mission of the Washington State Auditor’s Office

The State Auditor’s Office holds state and local governments accountable for the use of public resources.

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic **subscription service**.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

For more information about the State Auditor’s Office, visit www.sao.wa.gov.

Americans with Disabilities

In accordance with the Americans with Disabilities Act, this document will be made available in alternative formats. Please email Communications@sao.wa.gov for more information.

State Auditor’s Office contacts

State Auditor Pat McCarthy

360-902-0360, Pat.McCarthy@sao.wa.gov

Chuck Pfeil, CPA – Director of Performance Audit

360-902-0366, Chuck.Pfeil@sao.wa.gov

Christopher Cortines, CPA – Principal Performance Auditor

206-355-1546, Christopher.Cortines@sao.wa.gov

Erin Catterlin – Senior Performance Auditor

360-725-5567, Erin.Catterlin@sao.wa.gov

Olha Bilobran – Senior Performance Auditor

360-725-5606, Olha.Bilobran@sao.wa.gov

Brenton Clark, CIA – Performance Auditor

360-725-5386, Brenton.Clark@sao.wa.gov

Kathleen Cooper – Deputy Director for Communications

360-902-0470, Kathleen.Cooper@sao.wa.gov

To request public records

Public Records Officer

360-725-5617, PublicRecords@sao.wa.gov

Executive Summary

One of the ways the Washington State Department of Corrections (DOC) attempts to reduce the number of inmates returning to prison after release is through its Correctional Industries (CI) program. This program fulfills a policy objective set by the Legislature, serving as an inmate work-training program that strives to teach inmates marketable job skills and promote a positive work ethic. In turn, inmates are able to meet financial obligations, increase job skills and increase the likelihood of meaningful employment upon release from incarceration.

Studies have identified other benefits of the CI program, such as increased prison safety and cost savings. However, CI also is legally required to avoid unfair competition with private businesses while striving to operate financially sustainable programs. These competing demands have led to some public criticisms, including those voiced in a *Seattle Times* series in December 2014, about issues such as the prices it charges state agencies for some of the products provided by its Class II industries, which are the focus of our audit. These industries are designed primarily to reduce the costs of goods and services for tax-supported agencies and for nonprofit organizations.

With this performance audit, the State Auditor's Office analyzed the practices of CI, not the policy behind the program. We designed the audit to answer three questions:

1. How effective is 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?

Washington's CI operates various service, manufacturing and agricultural industries at 13 locations across the state, employing more than 450 staff statewide. As of June 30, 2016, it had more than 2,400 inmate workers.

CI could use leading practices to more effectively maintain and expand its industries

CI seeks to maintain and expand its inmate work training programs. Although it succeeded in adding about 800 inmate workers between the end of fiscal year 2014 and the end of fiscal year 2016, CI has experienced challenges when expanding its existing industries as well as planning for new ones. It closed two industries and delayed expansion on a third, indicating the need for CI to implement leading practices that help correctional industries in general plan for and manage successful industries. We identified four leading practices that could help CI strengthen its planning and program development:

- Establish a formal, agency-wide business planning policy
- Develop a formal process for assessing demand for job skills
- Improve processes for getting customer feedback
- Establish additional performance measures to assess how well it is meeting its mission

Establishing a pricing policy could help CI ensure it prices its products competitively

State law requires that CI price its Class II products and services with the objective of reducing public support costs. To achieve this requirement, CI agrees it must price its products competitively. Our review of 12 high-volume products showed that only one was priced higher than similar products offered by other vendors we reviewed. However, we found CI has not formalized a pricing policy as leading practices recommend. A formal pricing policy would help ensure that CI sets competitive prices while pricing its products in a way that allows it to reinvest in its industries.

Most industries are under the market share threshold set by CI

State law intends to protect Washington businesses from unfair competition. However, the law does not specify how CI should measure its impact. CI management told us that the CI Advisory Board established a guideline market-share cap of 3 percent, but there are no records to show how that figure was chosen and no written policy currently exists.

To demonstrate the effect its Class II industries have on private businesses, CI publishes an annual market share report that compares revenues for its industries to Department of Revenue (DOR) data on revenues for similar businesses in the state. CI's fiscal year 2016 market share report shows 14 of 16 Class II industries operate with a market share below the 3 percent threshold. The five-year total for fiscal years 2012-2016 shows that CI's overall market share is less than one-half of 1 percent of all revenues from similar businesses in the state.

Recommendations

We recommend the agency:

1. Use leading practices to establish a formal business planning policy for new and expanding industries
2. Develop a documented process to regularly assess the demand for skills taught to inmates based on input from private industry and current labor market data
3. Improve existing efforts to obtain customer feedback on prices and products by:
 - Expanding its customer survey to include questions about product quality and prices, and customer needs
 - Analyzing feedback to determine if CI's products and services adequately meet customer needs
4. Develop, track and publish the following industry-specific performance measures:
 - Inmate post-release employment outcomes
 - Accuracy of CI's cost of goods sold forecast
 - Accuracy of CI's operating expense forecast
 - Profitability

5. Establish a formal agency-wide pricing policy and a timeframe for implementing that policy. The pricing policy should include a documented process for:
 - Comparing prices for new and existing products to ensure prices are competitive
 - Approving prices to ensure they are set in accordance with policy
 - Reviewing prices at specified intervals, with formalized roles and responsibilities for reviewers

We recommend the Legislature:

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

Introduction

The Department of Corrections seeks to increase inmate success after release through its Correctional Industries program

In 2016, about 19,000 inmates were confined in Washington state prison facilities. Almost all (about 97 percent) will complete their sentences and return to the community. Many, however, find the prison gate turns into a revolving door, returning to prison within a few years of release. Roughly a third of inmates released since 2012 committed a new crime or violated the conditions of their release and returned to the correctional system.

One of the Department of Corrections' (DOC) efforts to break this cycle is its Correctional Industries (CI) program. The program's mission is "to maintain and expand inmate work-training programs which develop marketable job skills, instill and promote positive work ethics, and reduce the tax burden of corrections." CI also improves prison safety by reducing the time inmates are idle.

Researchers at Washington State University found inmates who participated in CI's work training program were less likely than other inmates to commit new offenses and more likely to find employment after being released. Their 2015 study found that inmates were significantly less likely to commit any type of infraction during the period of time they were employed by CI, and significantly less likely to commit violent infractions. When ex-inmates are able to successfully reintegrate into society, the state saves money. The Washington State Institute for Public Policy has repeatedly found CI is cost effective: in December 2016, it estimated that CI provides \$4.31 in benefit for every dollar spent.

CI produces a wide range of goods and services, from foods to furniture, and patterns its operations after the private sector. State law directs state agencies to purchase goods and services from CI. However, state law also mandates that CI should have a minimal impact on Washington businesses.

Nonetheless, media reports have raised concerns that CI has cost the state money due to industry failures, competes unfairly with private businesses, overcharges customers for its products and services, and has not increased the number of inmate workers it employs despite its promises to do so.

We designed the audit to answer three questions:

1. How effective is CI in maintaining and expanding its inmate work training programs?
2. Does CI price products in such a way that it can meet its legal requirements and stated goals?
3. Does CI compete unfairly with Washington businesses?

Studies highlighting the benefits of Washington's CI program include:

- **Washington State University** – *Washington State Correctional Industries: An outcome evaluation of its effect on institutional behavior, employment, and recidivism* December 2015
- **Washington State Institute for Public Policy** – *Benefit-Cost Results: Correctional industries in prison* December 2016
- **Washington State Department of Corrections** – *Does Participation in Washington's Correctional Industries Increase Employment and Reduce Recidivism?* October 2011

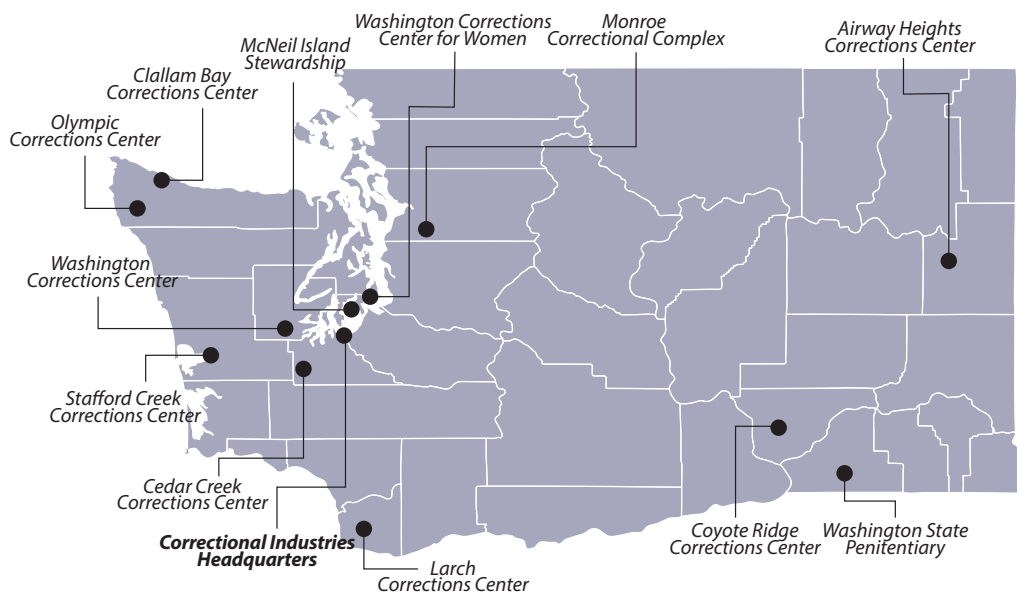
Background

Correctional Industries offers inmates work experience and training

Washington State Correctional Industries (CI) was established as a division within the Department of Corrections (DOC) in 1981. The program offers inmates work experience and vocational training to improve their chances of finding work after release. State law requires CI to reduce the cost of corrections through the production of goods and services for sale.

As shown in **Exhibit 1**, CI operates at 13 locations across the state; see **Appendix B** for a detailed list of CI industries and their locations. The program employs more than 450 staff statewide. As of June 30, 2016, it had more than 2,400 inmate workers; CI managers told us their goal is to employ at least 3,100 inmates by June 30, 2017. While working in CI, inmates receive training in technical skills that can help them secure a job after release, as well as the “soft” skills required to keep a job – such as showing up to work on time or working with a team.

Exhibit 1 – Locations of the Washington Correctional Industries operations in 2016



Source: Washington State Correctional Industries 2016 Annual Report.

CI is overseen by an advisory board

The CI Advisory Board includes representatives from organized labor, the business community and the general public, as well as members of the Legislature. Before 2011, the Board was responsible for setting policy for CI operations – including deciding whether to open, close, expand or reduce a specific industry. However, in 2011, the Legislature amended state law and made the Board advisory. Even though the Board no longer has authority to approve or disapprove program decisions, CI managers told us they regularly communicate with Board members and consider their input.

How CI operates and who is eligible to participate

DOC inmate training programs are divided into five classes of operation, listed in **Exhibit 2**. Of the five, only four (Class II through Class V) are currently operational. CI has authority over two work programs, Class I and Class II. In 2017, DOC requested that the Legislature update applicable state laws to comply with the Department of Justice requirements for Class I industries. Once CI makes these changes, it will need to secure partnerships with private-sector businesses so it can begin planning for new Class I ventures. Although this audit focused on CI's existing Class II industries, our recommendations may also help CI with these Class I ventures.

Exhibit 2 – Training programs operate in five classes

Class I	Free Venture Industries – In cooperation with for-profit or nonprofit organizations, inmate workers produce goods and services for sale to both the public and private sector. Currently, CI does not have any Class I industries in operation.
Class II	Tax Reduction Industries – State-owned and -operated industries designed primarily to reduce the costs of goods and services for tax-supported agencies and for nonprofit organizations. Class II manufacturing and service operations generate funds from the sale of their goods and services to support their activities. (Example: Furniture)
Class III	Institutional Support Industries – Operated by DOC. Inmates working in Class III industries support the activities of the facility. (Examples: Facility groundskeeper and office clerk)
Class IV	Community Work Industries – Operated by DOC. Class IV programs provide services in the facility's host community, to public and nonprofit agencies, at a reduced cost. (Example: Forestry workers)
Class V	Community Restitution Programs – Inmates that are placed on community supervision work off all or part of a community restitution order as ordered by sentencing court.

Source: Department of Corrections

DOC policy outlines specific requirements inmates must meet to be eligible to work in any Class II industry, listed in **Exhibit 3**. State law requires that inmates must volunteer to participate in Class I, Class II and Class IV industries. Any inmate eligible to work and not working in another DOC industry class shall work in Class III.

Exhibit 3 – Inmate employment eligibility requirements

A minimum of 12 months since being found guilty of any Category A infraction or drug-related infraction

A minimum of six months since being found guilty of any other serious infraction

No pending dispositions for any serious infractions

Completion of the Incoming Transport/Job Screening Checklist by the screening committee when the inmate transfers to the facility

A minimum of two years since any escape, excluding absconding supervision in the community or absence from Work Release with voluntary return within 24 hours

Meet minimum requirements – such as security clearances – established by the industry and the facility

Inmates terminated for any cause from a CI position will require the General Manager’s approval for a new Class II assignment.

Source: Department of Corrections.

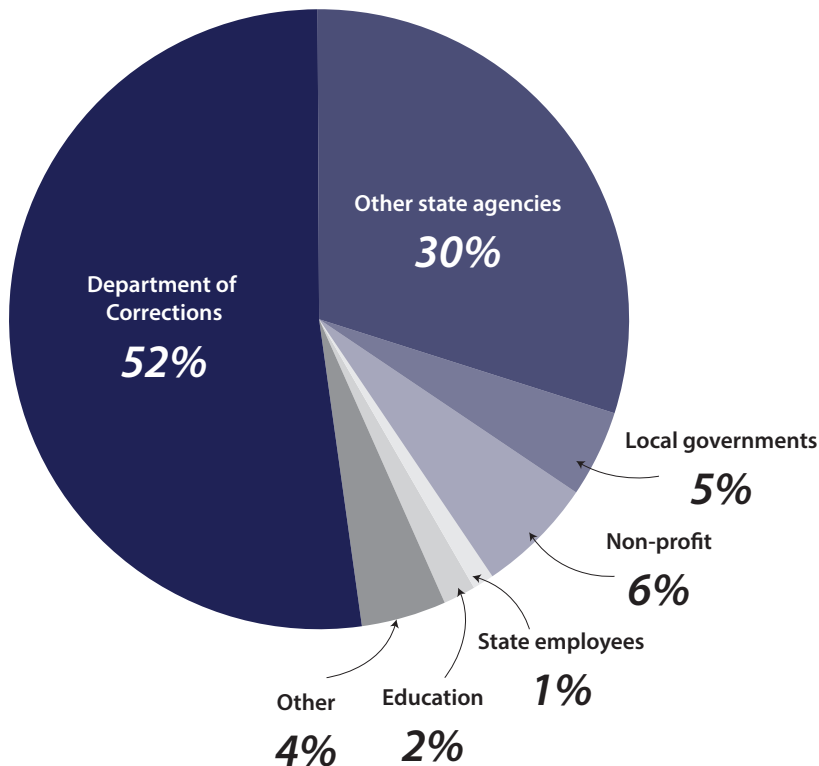
Gratuities paid to inmates working in CI are used to meet financial obligations

CI typically pays its inmate workers between \$0.65 and \$1.70 an hour. Inmate income must be used to meet their financial obligations, and much of their earnings are withheld to pay for crime victims’ compensation, court-ordered payments such as child support, and the cost of incarceration, as well as mandatory savings. According to DOC, CI inmate earnings contribute around \$1.63 million annually to meet these financial obligations.

State agencies are required to purchase from CI

State law directs state agencies, departments and the Legislature to purchase certain goods and services from Class II correctional industries. State institutions of higher education are required to set a target to purchase 2 percent of their total goods and services from CI. CI may also sell goods and services to nonprofit organizations, local governments, school districts, DOC employees and their families, inmates and their families, and private contractors when the purchased goods will be ultimately used by a public agency or a nonprofit organization. As Exhibit 4 shows, CI sells most of its Class II goods and services to state agencies and departments that are required by law to purchase from CI; DOC is its largest customer.

Exhibit 4 – Most of CI’s Class II sales are to state agencies required to purchase from it



Source: National Correctional Industries Association (NCIA) Directory 2017.

A state agency may request an exemption from purchasing CI goods and services if they do not meet the agency’s requirements, are not of sufficient quality, or are more expensive than the private sector. However, it cannot use this waiver for goods manufactured or services obtained from outside the state.

CI relies on sales revenue to support its operations

CI supports itself primarily through the sale of goods and services it produces. However, it also receives about \$11 million annually in appropriations for some administrative functions and stewardship of McNeil Island. For fiscal year 2016, CI reported operating revenues from all industries of nearly \$104 million and expenses of about \$95 million. It projects revenues to reach nearly \$110 million for fiscal year 2017. CI uses program revenues to cover expenses such as staff wages and inmate gratuities, and the cost of goods sold. It also uses them to reinvest in the program, such as purchasing new equipment.

Scope and Methodology

We used the following approaches to address the audit objectives.

Identified industry leading practices for correctional industries

The National Correctional Industries Association (NCIA) and the American Correctional Association (ACA) publish materials designed to help states operate and improve their correctional industries. We reviewed NCIA’s “Re-entry Focused Performance Excellence Guide,” which addresses inmate success, ensuring sustainability and enhancing operations. We also reviewed ACA’s “Performance-Based Standards for Correctional Industries” to identify standards that relate to our audit objectives. We compared CI’s practices to these standards to identify specific practices CI could adopt.

Contacted other states to obtain examples of management policies and tools

We wanted to learn how other states have implemented these leading practices to maintain and expand their inmate work training programs and set prices. To select comparison states, we asked CI managers and the NCIA president to suggest states they consider leaders in planning and managing their industries. We also considered states that had recently published performance audits with similar audit objectives, and ACA-accredited states, because they must meet some standards related to our objectives. We used auditor judgement to select six states (listed in the sidebar); CI’s managers concurred with the states we selected.

We asked officials from these states about the policies and procedures they use to plan for and manage their industries, and for setting prices for their products and services. We also asked for examples of management tools and written policies they use.

Reviewed CI’s practices and processes to identify gaps

We interviewed CI managers and reviewed relevant documentation to gain an understanding of how CI:

- Plans for new industries
- Maintains its existing industries – including soliciting customer input and tracking program performance
- Sets its prices
- Demonstrates that it does not unfairly compete with Washington businesses

Conducted a price comparison

To determine whether state agencies pay competitive prices for the products they purchase, we compared CI and non-CI prices on selected Class II goods, which agencies must buy from CI. We excluded sales to DOC since the audit focused on whether external state agencies purchase competitively priced items. We also excluded services from the comparison because of the difficulty in finding comparable services offered by private vendors.

We selected the 12 top-selling items in terms of volume, using sales revenue data for fiscal year 2016, for five industries: furniture, food, textiles, communications and boxes. We selected two items from all industries except furniture. There, we selected four, because furniture achieves the highest revenue and because of past criticism that prices are too high.

Comparison states

Arizona
California
Indiana
Maryland
Minnesota
North Carolina

We identified private-vendor products through internet searches during August and September 2016, choosing like-for-like products by using product specifications such as thread count for the pillowcases or size and quantity of envelopes. When we could not find comparable vendor products, we replaced that item with the next-highest-selling item from the CI sales data. For nine of CI's 12 products, we found three comparable vendor products but for the tenth product, we found only two comparable vendor products. In the case of the food industry products (hamburger buns and dinner rolls), we could find only one comparable product.

Assessed whether CI unfairly competes with Washington's businesses

CI classifies its industries according to the North American Industry Classification System codes, using them in its market share report for Class II industries. This report shows CI's current and potential impact on private sector businesses. To assess its impact, CI uses data from DOR to compare the percentage of its revenues for 16 business lines to revenues for similar businesses operating within the state. To determine whether CI's market calculations were accurate for our audit purposes, we obtained gross business income data from the DOR website and compared it to CI's reported program revenues for each of its 16 lines of business. We then recalculated the percentage of the market share each CI line of business takes based on the obtained data.

Audit performed to standards

We conducted this performance audit under the authority of state law (RCW 43.09.470), approved as Initiative 900 by Washington voters in 2005, and in accordance with Generally Accepted Government Auditing Standards (December 2011 revision) issued by the U.S. Government Accountability Office. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. See **Appendix A**, which addresses the I-900 areas covered in the audit.

Next steps

Our performance audits of state programs and services are reviewed by the Joint Legislative Audit and Review Committee (JLARC) and/or by other legislative committees whose members wish to consider findings and recommendations on specific topics. Representatives of the State Auditor's Office will review this audit with JLARC's Initiative 900 Subcommittee in Olympia. The public will have the opportunity to comment at this hearing. Please check the JLARC website for the exact date, time and location (www.leg.wa.gov/JLARC). The State Auditor's Office conducts periodic follow-up evaluations to assess the status of recommendations and may conduct follow-up audits at its discretion.

Audit Results

Question 1: How effective is Correctional Industries (CI) in maintaining and expanding its work training programs?

Answer in brief

CI has increased the number of inmate workers from about 1,500 to more than 2,400 over four years. However, it has experienced challenges when planning for new industries and expanding its existing ones. Low profits and inadequate planning have prompted CI to close two industries. These planning problems and responding to the unexpected loss of a food service contractor also slowed expansion plans for a third industry. We found CI lacked formal planning tools and policies that could have helped it plan for and manage successful industries. We identified leading practices that can help improve the likelihood that new industries will succeed in the future.

CI has increased the total number of inmate workers in recent years

Studies show that inmates who participate in work training programs are less likely to reoffend and more likely to find a job after they are released from prison. To maximize these benefits, CI's mission is, in part, to maintain and expand its inmate work training programs, which develop marketable job skills and promote positive work ethics.

CI increased the number of inmates the program employed from about 1,600 at the end of fiscal year 2014 to more than 2,400 at the end of fiscal year 2016. CI's financial reports attribute the growth to its expansion into the food service industry in fiscal year 2014, which added about 900 Class II inmate workers by fiscal year 2016. CI's goal is to increase the total number of inmate workers to at least 3,100 by June 30, 2017.

CI faces unique challenges that affect its efforts to expand its industries

Although state law directs CI to pattern its operations after private businesses, it faces three unique challenges that most private businesses do not:

- Space constraints
- Hiring instructional or supervisory staff
- Restrictions on eligible inmate workers

Space constraints – Unlike private sector businesses, which can expand by moving into larger facilities, CI cannot expand past the secure walls of the prison.

Hiring supervisory staff – Staff must possess industry-specific technical skills and be willing to work in a prison setting. For instance, CI managers told us that some qualified recruits may have safety concerns around working with inmates, or are unwilling to work in the rural areas where some prison facilities are located. CI managers also told us they have trouble matching private-sector wages for some technical fields like computer-assisted design.

Restrictions on eligible inmate workers – Finally, not all prisoners can or want to work in a Class II industry. First, DOC policy requires inmates to meet certain eligibility criteria to work in a Class II industry (see Exhibit 3 on page 9 for a complete list of inmate eligibility requirements). For example, they must have no serious infractions for at least six months. Second, participation is voluntary; some inmates might lack interest in working in industries offered in their facility, while others might already be participating in another type of training program.

CI experienced planning challenges and the unexpected loss of a contractor when expanding industries and adding new ones

The practical limits of program expansion are not the only issues affecting CI's success. We identified three instances where similar planning deficiencies contributed to CI either closing an industry or delaying planned industry expansions. We found these problems all had similar root causes; responding to the unexpected loss of a food service contractor also contributed to delays in one industry.

CI closed two industries after they failed to be financially sustainable

Tilapia Farm – CI modeled its tilapia farm after a similar correctional industries program in Colorado. The tilapia farm at Stafford Creek Correctional Center opened in fiscal year 2013, but according to CI managers, closed in October 2015 before selling fish, after a net operating loss of almost \$195,000. CI management told us about two specific planning issues:

- *CI did not identify a cost-effective fish processor.* CI planned to outsource fish processing but could not find a reasonably priced local processor. As a result, CI staff had to drive live fish to a distant processor, which was expensive, time consuming and killed fish. CI researched purchasing processing equipment but decided it was also too expensive.
- *CI did not obtain subject matter expertise.* Even though CI had never before attempted to grow or breed fish, it only consulted with staff from Colorado's correctional fish industry and did not hire an on-site subject matter expert. Consequently, CI did not develop the right breeding conditions, such as proper water temperature, resulting in large die-offs and few fish growing to maturity.

Although CI planned to sell the tilapia only to DOC to serve to inmates, it was unable to process enough tilapia into the consistent portion sizes that DOC requires. As a result, the business was left without a customer and was not sustainable.

Recycling – The recycling industry, located at the Monroe Correctional Complex and in a light industrial park near CI's headquarters in Tumwater, opened in fiscal year 2010 to recycle paper, cardboard and mattresses. CI financial reports show the recycling industry had a net operating loss of about \$900,000 before it closed the industry in fiscal year 2015. CI managers told us low profits from the mattress recycling portion of the industry, stemming from a lack of demand for recycling by-products, was the main reason they closed the industry.

CI experienced delays expanding food services in the prisons

Food service – The third industry has seen some success, adding about 900 new Class II jobs in food services over three years, but it has also encountered delays. CI managers identified two benefits to transitioning food service from a Class III to a Class II industry: it would increase CI's overall number of inmate workers and provide more training opportunities. For example, Class II food service workers may earn a traditional food handler's certification and an industry-recognized food management certification, neither of which were offered with the Class III classification.

However, CI underestimated the time and effort needed to put necessary personnel changes in place. For example, CI human resources staff had to create new job descriptions, as CI staff originally hired as cooks became responsible for training and supervising inmate workers. Collective bargaining issues related to position changes also took time. Finally, these new supervisors had to be trained themselves and become proficient at their new roles. This extra work resulted in CI hiring two additional staff to manage the workload and delayed planned expansions. After transitioning four prisons, CI delayed its planned expansion into a fifth facility until transition issues were resolved. It plans to transition into the next three facilities from October 2017 through October 2018.

Another factor contributed to these delays. CI managers told us that DOC had received notice from a contractor in June 2015 that it would stop providing food services at the Reynolds Work Release facility in 30 days. In response, DOC directed CI to assume the management and operations of food service at the facility. They went on to say that this required them to develop a plan for providing meals, writing menus, scheduling, and determining necessary equipment upgrades at the facility. They said these unanticipated tasks further delayed planning for additional DOC food service expansions until May 2016.

These three examples share some common problems, particularly in the areas of project planning. When we asked how CI planned new industries or expanded existing ones, managers told us CI lacks a formal policy or procedures for either situation. The leading practices we identified in our literature reviews and through discussions with other states could have helped CI better identify and assess barriers that limited the success of these programs.

Leading practices could help CI more effectively maintain and expand its industries

We identified four areas of leading practices that could help CI strengthen its planning and program development. We reviewed the National Correctional Industries Association (NCIA) performance excellence guide and the American Correctional Association (ACA) standards for correctional industries, and interviewed officials in six high-performing states to get specific examples of how they have implemented these practices. We focused on identifying practices that are key to effectively planning for new and expanding industries and managing existing ones. They include:

- Establish a formal agency-wide business planning policy
- Develop a formal process for assessing demand for job skills
- Improve processes for collecting and analyzing customer feedback
- Establish additional performance measures to assess how well it is meeting its mission

CI has not established a formal industry planning policy to help ensure all essential business questions are considered

Leading practices recommend that correctional industries programs have a formal, documented process for developing new and expanding existing industries. It allows inmate work programs to weigh the costs, benefits and risks of a new venture before committing resources to it. The sidebar shows some of the typical questions correctional industries should consider before embarking on a new venture.

CI lacks a formal policy requiring a business plan that would consider these questions, although managers told us they attempt to answer many of them when planning the introduction or expansion of an industry. However, CI could not find any planning documents related to the recycling industry for us to review, and the documents for the tilapia farm did not show evidence that all questions were considered. And while planning for these two industries, CI did not identify whether there would be sufficient demand for its products.

Furthermore, when we reviewed the planning document for one of CI's newest expansions – the optical industry – we found it also failed to consider similar questions. For example, the plan did not identify how the skills taught to inmates will be marketable, the potential impact on support staff, and projected sales and profitability.

By formalizing a business planning policy that incorporates these processes, CI could make it easier for industry managers to ensure they have considered all necessary questions. Such a process might have avoided some of the missteps that led to financial losses and delay.

CI could improve its processes for identifying marketable job skills

Leading practices recommend that correctional industries programs conduct research to ensure that the skills inmates learn align with the needs of the current job market. It is essential in the initial planning phase and should be revisited periodically as local and state workforce markets continuously evolve. Industries should consult directly with private sector employers and business associations to determine the types of technical and soft skills they require.

Key business planning considerations

- ✓ How much facility space, utility infrastructure and equipment is needed, and what will it cost?
- ✓ What is the industry's projected sales and profitability?
- ✓ How many inmate workers will the industry need to employ?
- ✓ How many correctional industries staff will the industry need? Does it require specialized training or instructors to establish or maintain?
- ✓ Will the industry have an impact on support staff, such as human resources, financial services and administration?
- ✓ Does the industry teach skills that are in demand in the workforce?
- ✓ Is there customer demand for the products and/or services?
- ✓ What impact will the industry have on private Washington businesses?

CI could enhance its job-demand assessment by making two improvements:

1. Documenting the results of job-demand monitoring would provide CI with justification for continuing an existing industry or planning for a new one. CI managers told us that although they monitor jobs that are in demand using information from the Employment Security Department, they do not create or retain documentation showing the result of their research.
2. Soliciting and documenting feedback from businesses would help ensure that its existing industries provide marketable job skills and offer CI some direction when it considers new industries. For example, Arizona meets periodically with business associations to learn about industry trends. While managers said they meet regularly with private businesses to promote the value of hiring former inmate workers, they do not ask what specific skills those employers need.

In the summer of 2017, our Office will publish a performance audit report that examines how the state identifies high-demand occupations and incorporates them into its secondary career and technical education programs. The information in that report may help CI assess the demand for the job skills it offers.

Collecting and analyzing customer feedback on products and services can guide decision-making once industries are under way

Once an industry is up and running, leading practices recommend that correctional industries programs be responsive to the needs of their customers. This includes regularly soliciting customer feedback to help managers assess product quality, delivery timeliness, and customer satisfaction with prices. Customer feedback can also provide information about new business development opportunities.

CI's current customer survey includes some but not all of the information needed to assess customer satisfaction. Currently, CI sends a paper copy of its customer survey with each order it delivers. It also has an online version on its website. This survey asks customers for feedback on CI's product quality and timeliness, but it does not ask about prices or whether CI's products and product design met the customer's needs. Furthermore, because CI does not compile the survey results or analyze them, it cannot identify positive and negative trends in customer comments.

We noted that CI's response rate for its surveys is less than 2 percent of orders. Other states have used a variety of methods to encourage more customer feedback. For example, Maryland solicits input on its operations and potential new products and services from a customer advisory council composed of representatives from customer agencies.

Aside from surveys and panels, CI could use other data to assess customer needs and satisfaction. State law allows agencies to request exemptions if they determine CI's goods and services are more expensive or of lesser quality than the private sector, or otherwise do not meet the agency's requirements. CI managers told us they track exception requests, but only for the furniture industry. However, CI does not use them to assess customer satisfaction. CI could also begin tracking the reasons for customer returns and requests for repairs under warranty. For instance, California reviews exception reports to identify the most common reasons for its returns and requests. This prompted California to adjust its furniture designs.

Additional performance measures could help CI assess how well it is meeting its mission

Performance measures help an agency or program understand whether it is achieving its objectives and goals. Leading practices recommend that correctional industries programs develop performance measures and benchmarks to help establish priorities, clearly define industry goals, and report progress to stakeholders such as legislators and the public.

CI tracks a wide range of performance measures internally using a management dashboard. Topics range from staff safety to business performance and Lean business practices. **Exhibit 5** presents four that apply directly to CI’s mission to maintain and expand work programs.

Exhibit 5 – Four performance measures CI currently tracks

Measure	What it tracks	What is learned	Goal
Class II employment by industry	# of inmates working monthly	Which industries have gained, lost or maintained employment	3,100 total workers by June 30, 2017
CI-wide Class II worker post-release employment	% of former workers employed 3 years post-release	How effective CI’s training programs are in helping people gain employment post-release	55% of inmates working post-release
CI-wide actual cost of goods sold compared to forecast	Variance between actual and forecast costs	Are product costs within budget	Variance of 3% or less
CI-wide actual operating expense compared to forecast	Variance between actual and forecast operating expenses	Are operating expenses within budget	Variance of 3% or less

Industry-specific performance measures would help identify causes for unexpected variances

Although CI already tracks one of these measures by industry (Class II inmate employment), the other three are only tracked for the program as a whole. Consequently, performance issues occurring in specific industries could be difficult to identify. Monitoring each performance measure by industry could help CI better identify where performance issues are occurring and allow it to track industry-specific trends over time.

Profitability performance measures would help set targets and track profitability trends

Industry literature we reviewed recognizes that some industries provide benefits that are unrelated to profitability, such as marketable job skills. As a result, leading practices do not require profitability in each individual industry. But they do require that correctional industries programs maintain overall financial sustainability to support their current operations and plan for new ones. Although state law does not specifically require CI to be profitable, it does require CI to reinvest its net profits into the expansion and improvement of the program.

CI does not have performance measures or benchmarks on its dashboard to track profitability, but it does obtain and review industry-specific profit and loss information on a monthly basis. Managers agreed that establishing profitability measures would help them set targets and track profits over time, and said setting targets would help them balance program profitability with the need to ensure their training programs help inmates secure a job after release.

Some states we talked to track and report industry-specific performance in annual business plans or reports. For example, California and Maryland have performance measures and goals for profitability. North Carolina produces an annual business plan that includes the financial performance for each of its industries, as well as analyses of strengths, weaknesses, opportunities and threats specific to each.

Question 2: Does CI price its products in a way that meets its legal requirements and goals?

Answer in brief

State law requires that CI price its products and services with the objective of reducing public support costs. To meet this requirement, CI agrees it must establish and maintain competitive prices for its products. However, the media has questioned whether CI prices are truly competitive. We compared CI's prices for 12 products to those of private vendors and found that all but one were within the range of private vendors' prices. However, CI does not have a written pricing policy to ensure and demonstrate it sets competitive prices, reinvests in its industries, and reduces public support costs.

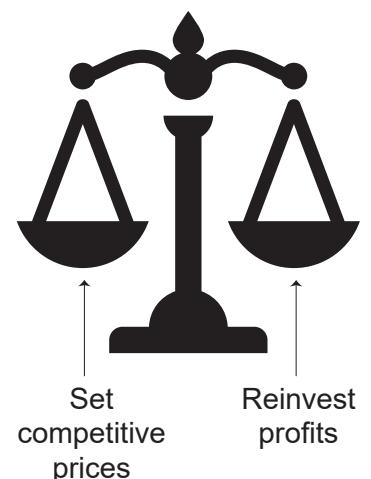
State law requires CI to price its products competitively and reinvest profits in its programs, but perceptions exist that CI's prices are too high

State law requires CI to balance these price-related mandates:

- Design its Class II industries in such a way that they reduce the cost of goods and services to tax-supported entities. CI managers interpret this to mean they should set competitive prices for their products and services.
- Although CI is not required to make a profit, it is required to reinvest any profits back into the program to expand and improve its operations.

The law also prohibits CI from pricing its products so low that it undercuts Washington private businesses – a topic we address further in **Question 3**.

Some have questioned whether CI's prices are too high. A *Seattle Times* series in 2014 claimed that CI does not set competitive prices, particularly in the furniture industry. It accused CI of “exorbitant markups” for products it sells to state agencies to compensate for losses in other businesses it runs. The authors claimed that CI took advantage of state law that requires state agencies to purchase goods and services from CI, adding that “the prison program has capitalized on that monopoly with hefty markups.”



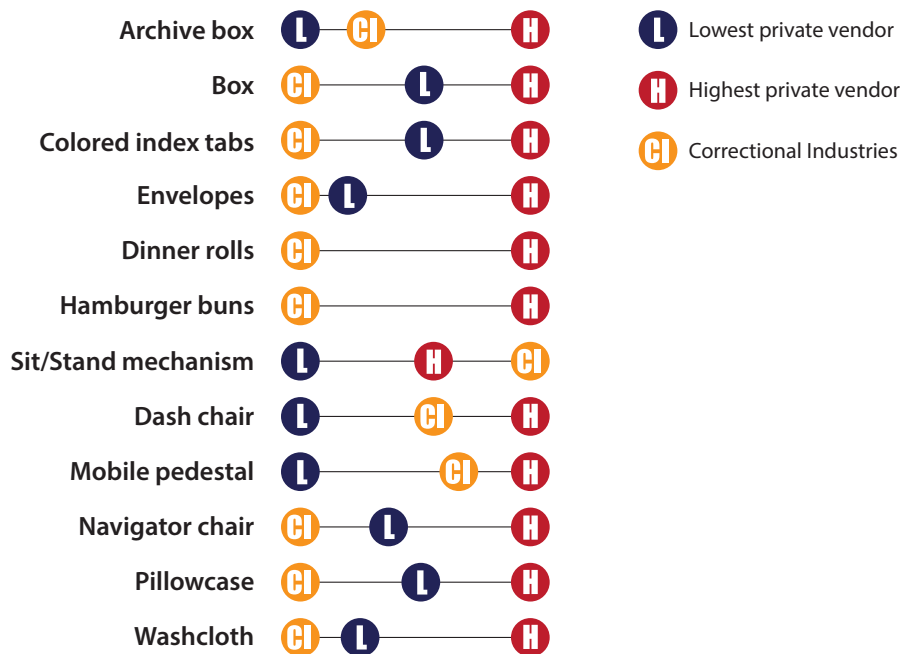
Our comparisons showed all but one of the products we reviewed were within or below the comparable price range

To see whether state agencies are paying competitive prices for the products they purchased, we conducted an analysis of 12 products, using CI's sales revenue data for fiscal year 2016. We identified the top-two-selling products by volume from five of the main industry groups: textiles, furniture, food, communications and boxes. We selected two additional items (total of four) from the furniture industry because it had been singled out for criticism in the past.

In conducting the comparison for each of these CI products, we performed an internet search for comparable products from three different vendors. However, in some cases we were only able to find one or two comparable products. When we found too many differences between the CI products and those offered by the private vendors, we selected the next product on the list of top-selling products by volume.

As shown in Exhibit 6, our comparison found that three of the 12 products were within and eight of the 12 were below the price range of competitive products. The one product that was priced higher than its competitors was the desk called the Ergo Design Sit/Stand Mechanism (2K16). Appendix C has additional detail on the price comparison results.

Exhibit 6 – Most of the products we price-checked fell within the 'comparable price' range



Source: Auditor analysis based on reviews of CI prices and those of private vendors.

Because our price comparisons were limited to these 12 high-volume products, we cannot conclude that all CI prices are competitive.

Without a pricing policy, CI cannot ensure it saves agencies money while producing sufficient profit for reinvestment

A formal pricing policy would help ensure that CI sets competitive prices that also allow it to reinvest in its programs. ACA standards recommend that correctional industries programs establish formal pricing policies to ensure pricing decisions are based on the cost of goods and manufacturing as well as market information. We also talked to six states to learn about their pricing policies and obtain examples of their policies and procedures.

Based on the ACA standards and input from other states, we developed the following framework to help CI ensure it has an effective pricing policy:

- Compare prices to the private market and document the results
- Establish a price-approval process
- Establish a process for periodically reviewing prices for possible adjustments

To understand how CI managers set prices, we talked to executive management and the managers of the five industries we included in the price comparison. We then compared CI's practices to this framework and found gaps and inconsistent practices across its industries.

We learned CI does not have an agency-wide pricing policy. Some CI managers said this puts the overall program at risk of not recovering costs or overcharging customers. For example, one industry manager said that the industry's method is too subjective, meaning prices and resulting margins are sometimes estimated, sometimes based on what a customer can afford to pay. None of the industry managers we talked to said they document the reasoning behind pricing or margins. Indeed, two managers said margins in their industries were set years ago and they did not know the justification for them. With no pricing policy in place, CI cannot ensure it achieves its goals to save agencies money while achieving sufficient profit to reinvest in its industries.

Comparing prices and documenting results helps ensure prices are set competitively

To help correctional industries establish sound pricing policies, the ACA recommends they periodically conduct market analyses and document the results. Comparing prices to the private market helps ensure prices are set competitively, while documenting the results helps promote transparency. CI compares prices to the private market, but its practices are inconsistent and largely undocumented.

CI's practices for conducting market comparisons vary. Managers for the five industries all told us they compare prices to the private market, but only one documents the results. Moreover, the reasons why managers compare prices vary. For example, one brand manager conducts market comparisons when reviewing prices, another when the industry receives complaints about products, while another "only if there is a need."

Other states we talked to said they compare prices for their products to those offered on the private market when setting or reviewing prices. Two, Maryland and California, have written policies that require CI programs to periodically compare prices. Maryland's policy requires its marketing department to conduct market studies of the average selling prices of three private vendors. Factors considered include the targeted profit goal, vendor price changes, and cost increases experienced by the agency. California has a marketing and business analysis unit that obtains information on available, comparable products.

Having a formal price-approval process helps ensure policy is implemented as intended

Leading practices recommend that correctional industries establish formal processes for approving prices to help ensure the pricing policy is implemented as intended. It is also a good way for executive management to see how well the policy is working and identify any changes that may be needed. CI does not have an overarching pricing policy, nor does it have a formal process for approving individual industry prices. Only one manager told us they have an unwritten approval process while other managers do not have any.

Four of the states we talked to have an approval process that requires a designated person or entity to review and approve a price. For example, a senior manager at the Minnesota program approves new pricing. In Maryland, an external agency, the Department of General Services, has this duty.

Periodic reviews help ensure prices remain competitive by identifying necessary price adjustments.

Leading practices recommend periodically reassessing prices because prices can fluctuate, particularly for commodities. We found CI does not have a formal process for reassessing prices.

Four other states we talked to said their pricing policies establish a schedule for when prices should be reviewed. For example, Maryland, Minnesota and California conduct annual reviews. Arizona reviews costs to identify needed price adjustments for standard products every six months and for custom products every 30 days. Most of the CI industry managers told us they have an informal process for reviewing prices, but there is no program-wide standard for when or how to conduct a review.

Not periodically reviewing prices can lengthen the time that prices are set too low or too high. For example, when we shared price comparison results for the sit/stand mechanism with CI managers, they said no one had reviewed the price of the product since 2013. They said the price had originally been based on the product cost, the designer's fee and the market value at the time. Although the designer fee ended in January 2015, CI did not review the product price for possible adjustment until we asked about it in October 2016. CI managers noted that there are many similar products on the market now, so the price for the product is no longer competitive. CI lowered the price in November 2016, and told us it would replace the desk with another product in January 2017.

CI is developing a formal pricing policy

During the audit, CI recognized the benefits of a formal pricing policy and began working on one for all industries. CI managers told us they expect to implement this policy by July 2018.

Question 3: Does CI compete unfairly with Washington businesses?

State law is not clear about what “fair competition” means

State law intends to protect Washington businesses from unfair competition. However, the law does not specify how CI should measure its impact. ACA standards do not address the topic of correctional industries competing with local businesses, while other states we talked to do not measure their market share annually or do not have a formal process for determining it on a regular basis.

CI management told us that the CI Advisory Board established a 3 percent threshold to cap the extent to which CI impedes the local market. However, this threshold was established several years ago, and CI does not have a record of how this decision was reached. It is unclear whether the threshold set by the Board meets legislative intent of restricting CI from competing with private businesses. Different states we talked to have different market-share goals ranging from 1 percent to 5 percent.

The majority of industries are under the market share threshold set by CI

To demonstrate the impact of its Class II industries on state businesses, CI publishes an annual market share report that compares revenues for its lines of business to Department of Revenue information on revenues for similar types of businesses in the state. We performed procedures on the numbers reported in CI’s annual market share report to conclude they were sufficiently reliable for our audit purposes.

The fiscal year 2016 market share report shows 14 of the 16 Class II industries operate with a market share of less than CI’s 3 percent threshold. One industry, food service, has a bigger market share of 3.4 percent. Because of a lack of private sector sales information, CI could not accurately determine the market share for a second industry, field crops.

The five-year total for fiscal years 2012 through 2016 shows that CI’s overall market share is less than one-half of 1 percent of all revenues from similar businesses in the state.

Recommendations

We recommend the agency:

1. Use leading practices to establish a formal business planning policy for new and expanding industries
2. Develop a documented process to regularly assess the demand for the skills taught to inmates based on input from private industry and current labor market data
3. Improve existing efforts to obtain customer feedback on prices and products by:
 - Expanding its customer survey to include questions about product quality and prices, and customer needs
 - Analyzing feedback to determine if CI's products and services adequately meet customer needs
4. Develop, track and publish the following industry-specific performance measures:
 - Inmate post-release employment outcomes
 - Accuracy of CI's cost of goods sold forecast
 - Accuracy of CI's operating expense forecast
 - Profitability
5. Establish a formal agency-wide pricing policy and a timeframe for implementing that policy. The pricing policy should include a documented process for:
 - Comparing prices for new and existing products to ensure prices are competitive
 - Approving prices to ensure they are set in accordance with policy
 - Reviewing prices at specified intervals, with formalized roles and responsibilities for reviewers

We recommend the Legislature:

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

Agency Response



STATE OF WASHINGTON

May 2, 2017

The Honorable Pat McCarthy
Washington State Auditor
P.O. Box 40021
Olympia, WA 98504-0021

Dear Auditor McCarthy:

Thank you for the opportunity to review and respond to the State Auditor's Office (SAO) performance audit report, Correctional Industries: Planning, Pricing, and Market Share. The Office of Financial Management worked with the Department of Corrections (DOC) to provide this response.

We appreciate the Auditor's recognition that the department's Correctional Industries (CI) program has increased inmate worker participation by 60 percent over the last four years. As the report notes, the CI program provides its workers with marketable job skills, thus increasing their ability to find work upon release. This is a critical element of our state's goal of promoting positive change for the incarcerated population and reducing recidivism, which increases public safety for all Washingtonians.

The department recognizes the value of the Auditor's recommendations to formalize and document Correctional Industries' business planning tools and related policies. The department also sees the value in engaging customers when evaluating pricing structure and overall product satisfaction.

We appreciate the collaborative approach your staff used during the course of the audit. The attached action plan addresses the areas for improvement identified in the report.

Sincerely,

Handwritten signature of David Schumacher in black ink.

David Schumacher
Director
Office of Financial Management

Handwritten signature of Stephen D. Sinclair in blue ink.

Stephen D. Sinclair
Secretary
Department of Corrections

cc: David Postman, Chief of Staff, Office of the Governor
Kelly Wicker, Deputy Chief of Staff, Office of the Governor
Drew Shirk, Executive Director of Legislative Affairs, Office of the Governor
Roselyn Marcus, Assistant Director, Office of Financial Management
Scott Merriman, Legislative Liaison, Office of Financial Management
Rich Roesler, Acting Director, Results Washington, Office of the Governor
Tammy Firkins, Performance Audit Liaison, Results Washington, Office of the Governor
Danielle Armbruster, Assistant Secretary, Department of Corrections

This coordinated management response to the State Auditor’s Office (SAO) performance audit report received April 12, 2017, is provided by the Office of Financial Management and the Department of Corrections (DOC).

SAO PERFORMANCE AUDIT OBJECTIVES:

The SAO designed the audit to answer:

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

SAO Recognitions:

1. SAO price comparisons showed all but one of the products reviewed were within or below the comparable price range.
2. The majority of industries are under the market-share threshold set by CI.

SAO Findings:

1. CI has experienced planning challenges and contractor difficulties in the past when expanding industries and adding new ones.
 2. Without a pricing policy, CI cannot ensure it saves agencies money while producing sufficient profit for reinvestment.
 3. State law is not clear about what “fair competition” means.
-

SAO Recommendation 1: Use leading practices to establish a formal business planning policy for new and expanding industries.

STATE RESPONSE: CI acknowledges the benefits of having a documented process for expanding and opening new businesses. We appreciate the SAO’s recognition of our success in increasing the number of inmate workers. CI has instilled an agency-wide Lean culture that promotes and values strong business practices focused on customer satisfaction and efficient production models. We recognize the identified gap of planning new business expansions and will implement a formalized policy that is rooted in consistency, Lean principles, and evidence-based leading practices.

Action Steps and Time Frame

- Develop a formal business planning policy encompassing process constraints, business impacts, training requirements, effects on private Washington businesses, and customer demand for CI goods and services. *By July 1, 2018.*
-

SAO Recommendation 2: Develop a documented process to regularly assess the demand for skills taught to inmates based on input from private industry and current labor market data.

STATE RESPONSE: CI agrees a formalized documented process will contribute to the goal of increasing post-release employment and reducing recidivism. Information gained from private industry and current labor market data will aid CI in identifying the technical and soft/interpersonal skills required by employers. CI anticipates that developing and following a process to assess real-time employer demand will help develop stronger connections and pathways to employment for individuals upon release in our communities. These efforts are already a part of CI's strategic plan. Formalizing the process will enhance the work of CI and its workforce development unit. We acknowledge that using this data on a more frequent basis will allow us to better understand inmate programming needs, recognize successes and evaluate effectiveness.

Action Steps and Time Frame

- CI will establish a process to regularly review labor market data developed by the state Employment Security Department. *By June 30, 2017.*
- CI will identify and deploy leading practices to engage potential employers for individuals released from incarceration. *By September 30, 2017.*
- CI will leverage existing relationships with stakeholders to define a process to request or run additional reports on labor market data. *By December 31, 2017.*
- CI will evaluate the need for and interest in a cross-sector employer advisory group. *By December 31, 2017.*
- CI will develop an employer needs survey for businesses that already employ previously incarcerated individuals. *By December 31, 2017.*

SAO Recommendation 3: Improve existing efforts to obtain customer feedback on prices and products by:

- Expanding its customer survey to include questions about product quality and prices, and customer needs
- Analyzing feedback to determine if CI's products and services adequately meet customer needs

STATE RESPONSE: CI acknowledges the benefits of being responsive to the needs of its customers. CI recognizes the importance of regularly soliciting feedback in order to assess product quality, delivery timeliness and overall customer satisfaction. CI also recognizes the identified gap in obtaining feedback as it relates to product quality, pricing and new business development opportunities. CI has a current practice of providing a survey form to each customer at the time of delivery. We understand SAO's conclusion that the survey forms receive a low response rate, and those that are returned lack an appropriate assessment of customer needs and satisfaction. In order to guide decision making for the furniture industry, CI will enhance and strengthen analysis of customer feedback.

Action Steps and Time Frame:

- Develop a customer request tracking system to identify the most common reasons for requests, including returns, and requests for repairs under warranty. *By July 1, 2017.*
 - Develop a formalized and modern customer feedback process designed to significantly increase participation and to enhance assessment of product quality, pricing, and new business development opportunities. *By September 30, 2017.*
 - Establish an advisory council composed of representatives from customer organizations. A customer advisory council will assist CI in soliciting input on its operations and potential new products. *By September 30, 2017.*
-

SAO Recommendation 4: Develop, track and publish the following industry-specific performance measures:

- Inmate post-release employment outcomes
- Accuracy of CI's cost of goods sold forecast
- Accuracy of CI's operating expense forecast
- Profitability

STATE RESPONSE: CI recognizes the importance of having accurate performance measures to evaluate how well the program is achieving its mission. CI appreciates the SAO's overview of the current performance measures being tracked to assess staff safety, Lean practices and business performance. CI recognizes the opportunity to improve and expand these measures to help CI more accurately reflect current business performance and efficiently report to key stakeholders. In order to continue to strengthen CI's post-release employment metrics, we will move to an industry-specific model to track performance and trends.

CI has increased efforts to accurately forecast overall prices of goods sold and operating expenses. Processes to collaboratively work across industries and refine current forecast modeling techniques will allow CI to more accurately project future costs and expenses. To improve forecasting, CI will implement industry-specific measures for accurately forecasting goods sold and operating expenses.

As noted by SAO, CI tracks industry-specific profit and loss information on a monthly basis, but does not have performance measures to track profitability. While our industries provide benefits beyond profitability — such as developing marketable job skills and reducing inmate infraction levels — CI recognizes the benefit of profitability performance measures. To ensure consistent and effective reinvestment into the program, CI will establish profitability performance measures.

Action Steps and Time Frame:

- Expand current post-release employment tracking to include industry-specific measures. *By July 1, 2018.*
- Improve the current forecasting model to include an industry-specific measure for accurate price of goods sold. *By July 1, 2018.*
- Improve the current forecasting model to include an industry-specific measure for accurate operating expense. *By July 1, 2018.*
- Develop industry-specific measures of profitability. *By July 1, 2018.*

SAO Recommendation 5: Establish a formal agency-wide pricing policy and a timeframe for implementing that policy. The pricing policy should include a documented process for:

- Comparing prices for new and existing products to ensure prices are competitive
- Approving prices to ensure they are set in accordance with policy
- Reviewing prices at specified intervals, with formalized roles and responsibilities for reviewers.

STATE RESPONSE: CI supports the SAO recommendation, and looks forward to establishing a formal pricing policy governing all products and services. In September 2016, CI recognized it could improve its market competitiveness and operational effectiveness by developing a uniform and objective pricing model. CI will adopt the SAO recommended pricing policy to further increase fiscal transparency and program reinvestment.

The intent of the policy and corresponding pricing model would provide price stability for CI customers and help address market fluctuations and other factors affecting operations.

Action Steps and Time Frame:

- Improve annual fiscal forecast detail and accuracy by aligning industry-specific revenues and expenses, enabling full cost recovery for respective industries. *By July 1, 2017.*
- Improve annual fiscal forecast detail and accuracy by developing a new warehouse and transportation cost allocation model. *By October 1, 2017.*
- Establish a phased equipment replacement schedule by respective industry. *By January 1, 2018.*
- Distribute the final pricing policy and corresponding pricing model, and train staff on using the model during the annual forecasting process. *By March 1, 2018.*
- Implement the final pricing policy and corresponding pricing model. *By July 1, 2018.*

SAO Recommendation to the Legislature: Clarify RCW 72.09 to explain how CI should measure compliance with unfair competition restrictions for its Class II industries.

Action Steps and Time Frame

- Not applicable. *Directed to the Legislature.*

Appendix A: Initiative 900

Initiative 900, approved by Washington voters in 2005 and enacted into state law in 2006, authorized the State Auditor’s Office to conduct independent, comprehensive performance audits of state and local governments. Specifically, the law directs the Auditor’s Office to “review and analyze the economy, efficiency, and effectiveness of the policies, management, fiscal affairs, and operations of state and local governments, agencies, programs, and accounts.” Performance audits are to be conducted according to U.S. Government Accountability Office government auditing standards.

In addition, the law identifies nine elements that are to be considered within the scope of each performance audit. The State Auditor’s Office evaluates the relevance of all nine elements to each audit. The table below indicates which elements are addressed in the audit. Specific issues are discussed in the Audit Results section of this report.

I-900 element	Addressed in the audit
1. Identify cost savings	No. However, implementation of the audit’s recommendations could help avoid future costs related to failed industries. Furthermore, CI’s customers could see cost savings if CI regularly reviews its prices to ensure they are competitive.
2. Identify services that can be reduced or eliminated	No. However, the audit’s recommendations could help avoid establishing or expanding industries that do not effectively serve state agencies or do not provide meaningful training to inmates.
3. Identify programs or services that can be transferred to the private sector	No. The purpose of the CI program is to provide inmates with the opportunity to learn skills that assist them upon release, while providing agencies with low-cost products and services. The audit concludes that CI pricing was competitive for most of the products we examined.
4. Analyze gaps or overlaps in programs or services and provide recommendations to correct them	Yes. The audit concludes that CI needs to review its pricing more frequently and improve the quality of its planning when entering into new industries.
5. Assess feasibility of pooling information technology systems within the department	No. The areas examined during this audit were not dependent on information technology systems.
6. Analyze departmental roles and functions, and provide recommendations to change or eliminate them	Yes. The audit concludes that CI needs to review its pricing more frequently and improve the quality of its planning when entering into new industries.
7. Provide recommendations for statutory or regulatory changes that may be necessary for the department to properly carry out its functions	Yes. The audit recommends that the Legislature clarify how CI should measure whether it is complying with laws that restrict unfair competition.
8. Analyze departmental performance data, performance measures and self-assessment systems	Yes. The audit recommends that CI improve its performance measures related to profitability and expand its measures to include each industry.
9. Identify relevant best practices	Yes. The audit identifies leading practices for pricing and business planning that CI should implement to strengthen its management of the program.

Appendix B: CI Industries and Locations

ABERDEEN

Stafford Creek Corrections Center

- Custom Furniture
- Customer Service
- Ergonomic Seating
- Laundry
- Metal Fabrication
- Metal Files and Storage
- Office Systems
- Panel Systems
- Residence Hall Furniture
- Wood Furniture

AIRWAY HEIGHTS

Airway Heights Corrections Center

- Commissary
- Food Manufacturing
- Food Service
- Furniture Refurbishing
- Laundry
- Optical Lab
- Promotional Products
- Screen Printing
- Textiles

CLALLAM BAY

Clallam Bay Corrections Center

- Garments
- Laundry

CONNELL

Coyote Ridge Corrections Center

- Food Manufacturing
- Food Service
- Laundry
- Mattresses
- Textiles

FORKS

Olympic Corrections Center

- Laundry

GIG HARBOR

Washington Corrections Center for Women

- Braille Services
- Computer Aided Design Services
- Embroidery
- Inmate Clothing Distribution
- Screen Printing
- Textiles
- Trades Related Apprenticeship Coaching

LITTLE ROCK

Cedar Creek Corrections Center

- Laundry

MONROE

Monroe Correctional Complex

- Food Service
- Commissary
- Laundry
- License Tabs
- Optical
- Printing
- Socks

SHELTON

Washington Corrections Center

- Food Service
- Laundry
- Inmate Clothing Distribution
- Safety Kits

STEILACOOM

McNeil Island Stewardship

- Work Crews:
 - Grounds Maintenance
 - Marine
 - Vehicle Maintenance
 - Waste Water/Water Distribution

TUMWATER (CI HQ)

WA State Light Industrial Park

- Consolidated Distribution Center
- Furniture Installation and Warranty
- Janitorial Products
- Statewide Transportation

WALLA WALLA

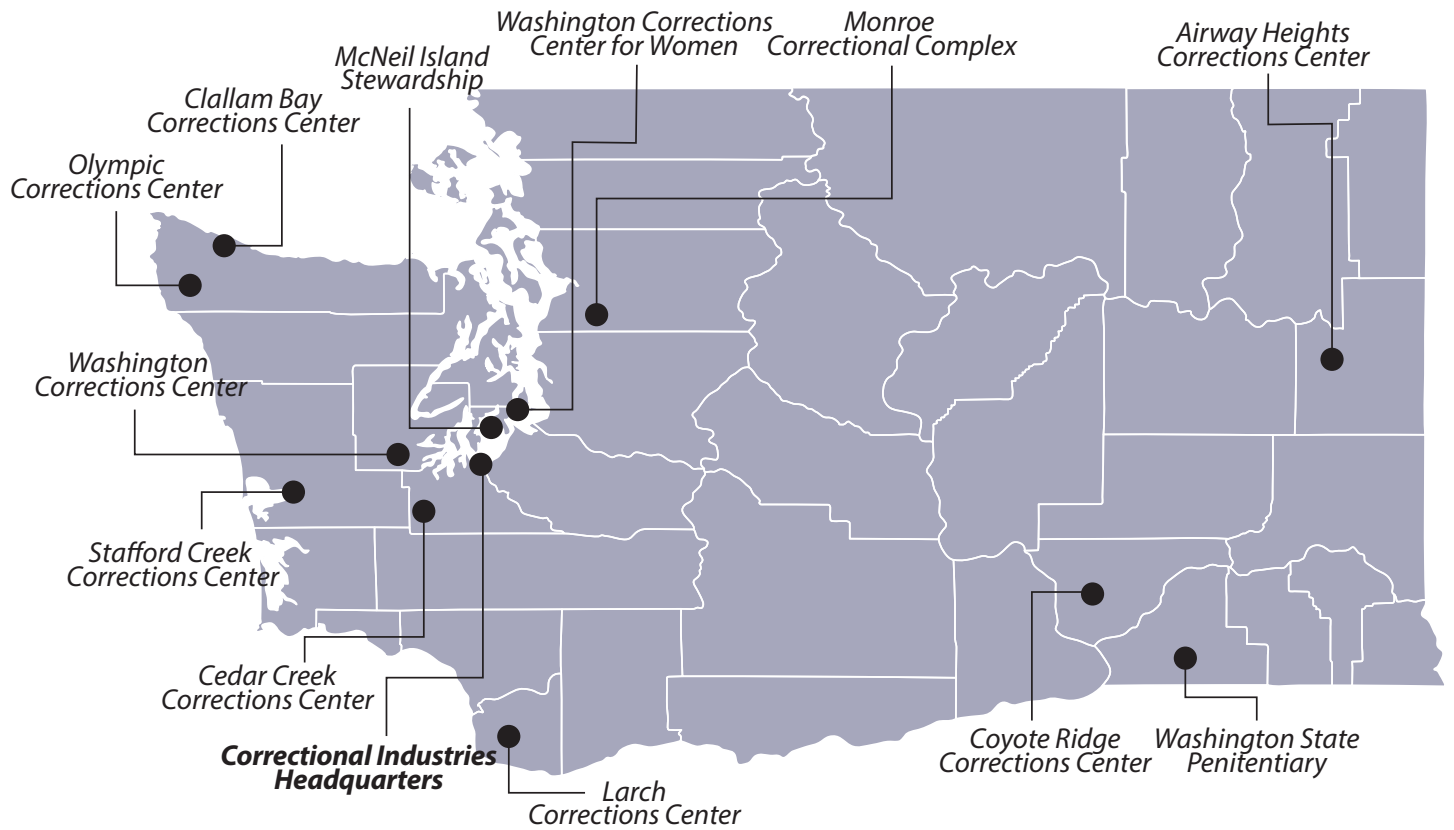
Washington State Penitentiary

- Cardboard Boxes
- Composting
- East Transportation
- Field Crops
- Food Service
- Laundry
- License Plates
- Metal Manufacturing
- Recycling

YACOLT

Larch Corrections Center

- Laundry



Appendix C: Results of Pricing Comparisons

“Total price” line includes shipping unless otherwise noted. Shipping costs reflect the product quantities shown in the specifications row for each of the products above. In instances where we changed these quantities so we could compare vendor’s prices to CI’s prices, we did not adjust the shipping costs. For this reason, it is possible that the shipping costs shown in our price comparisons above may differ from actual shipping costs.

BOX INDUSTRY				
Archive box	Lowest priced vendor	CI	2nd highest priced vendor	Highest priced vendor
Specifications	15”D x 12”W x 10”H; Corrugated cardboard; lift-off lid; 100% recycled content No custom printing options Sold in packs of 10	15.5”D x 12”W x 10”H; Lightweight, heavy-gauge cardboard; lift-off lid; 70% recycled content Custom printing options Sold in packs of 10	15”D x 12”W x 10”H; Corrugated cardboard; stacking strength of 200 lbs; lift-off lid; recycle content not noted No custom printing options Sold in packs of 10	15”D x 12”W x 10”H Standard-duty strength cardboard; lift-off lid; 65% recycled content No custom printing options Sold in packs of 10
List price/pack	\$12.95	\$23.88	\$22.99	\$34.99
Shipping	\$7.24	Included in price	\$9.95	\$9.95
Total price/pack	\$20.19	\$23.88 *	\$32.94	\$44.94

* CI sells top and bottom of the box separately, so we combined the prices.

Box	CI	Lowest priced vendor	2nd highest priced vendor	Highest priced vendor
Specifications	12”D x 12”W x 9”H; Lightweight, heavy-gauge cardboard; 70% recycled content Sold in packs of 25	12”D x 12”W x 9”H; Corrugated box; recycle content not noted Sold in packs of 25	12”D x 12”W x 9”H; Material and recycle content not noted Sold in packs of 25	12”D x 12”W x 9”H; Corrugated box; recycle content not noted Sold in packs of 25
List price/pack	\$29.85	\$33.49	\$19.00	\$31.08
Shipping	Included in price	\$9.95	\$27.16	\$18.45
Total price/pack	\$29.85	\$43.44	\$46.16	\$49.53

COMMUNICATIONS INDUSTRY				
Colored index tabs	CI	Lowest priced vendor	2nd highest priced vendor ‡	Highest priced vendor
Specifications	Colored index tabs Paper size 9”x11”; 12 tabs per set; 3-hole punched Sold by the set	Colored index tabs Paper size 9”x11”; 12 tabs per set; hole punch not noted Sold by the set		Colored index tabs Paper size 8 1/2”x11”; 12 tabs per set; 3-hole punched Sold 6 sets in a package
List price/unit	\$2.70/set	\$4.37/set		\$6.07/package
Price/set	\$2.70	\$4.37		\$1.01
Shipping	Included in price	Included in price		\$7.95
Total price/set	\$2.70	\$4.37		\$8.96

‡ We were unable to find another vendor with comparable products to identify other prices.

COMMUNICATIONS INDUSTRY, continued

Envelopes	CI	Lowest priced vendor	2nd highest priced vendor	Highest priced vendor
Specifications	#10 envelope, window w/return address Priced individually	#10 envelope, window w/return address Sold 500 envelopes/box	#10 envelope, window w/return address Sold 500 envelopes/box	#10 envelope, window Sold 500 envelopes/box
List price/unit	\$0.06220/one envelope	\$73.99/box	\$77.30/box	\$105.00/box
Shipping	Included in price	Included in price	Included in price	\$21.22
Total price/500 envelopes	\$31.10 *	\$73.99	\$77.30	\$126.22

* Although CI sells envelopes in a box of 500, the list price was for one envelope. We multiplied the price of one envelope by 500 to get the price of one box.

FOOD INDUSTRY

Dinner rolls	CI	Lowest priced vendor ‡	2nd highest priced vendor ‡	Highest priced vendor
Specifications	White whole-grain dinner rolls; 2 oz 100 rolls/case			Wheat dinner rolls; 2 oz 180 rolls/case
List price/unit	\$12.75/case			\$57.35/case
Price/roll	\$0.13			\$0.32
Shipping	Included in price			\$42.40
Total price/100 rolls	\$12.75			\$74.26 *

* Since CI sells 100 rolls per case and the private vendor sells 180, we calculated an approximate price for 100 rolls for the private vendor.

‡ We were unable to find other vendors with comparable products to identify other prices.

Hamburger buns	CI	Lowest priced vendor ‡	2nd highest priced vendor ‡	Highest priced vendor
Specifications	White whole-wheat hamburger buns; 2 oz Sold 192/case			Whole-grain hamburger buns; 2 oz Sold 120/case
List price (unit as noted)	\$19.17/case			\$34.05/case
Price per bun	\$0.10			\$0.28
Shipping	Included in price			\$49.20
Total price/192 buns	\$19.17			\$103.68 *

* Since CI sells 192 buns per case and the private vendor sells 120, we calculated an approximate price for 192 buns for the private vendor.

‡ We were unable to find other vendors with comparable products to identify other prices.

FURNITURE INDUSTRY

Sit/Stand Mechanism	Lowest priced vendor	2nd highest priced vendor	Highest priced vendor	CI
Specifications	Adjustable work surface; fits dual-monitor setups <i>Overall dimensions:</i> Footprint 35"W x 25"D, 15" vertical travel <i>Construction details:</i> Work surface and keyboard tray move in tandem; keyboard tray 25"W x 9"D; supports up to 35 lbs; two colors	Adjustable work surface; fits dual-monitor setups <i>Overall dimensions:</i> Footprint 36"W x 29.75"D, about 14" vertical travel <i>Construction details:</i> Keyboard and work surface move in tandem, 11 height settings; full height 17.5" for work surface, 14" for keyboard tray; supports up to 35 lbs; three colors	Adjustable work surface; fits single monitor <i>Overall dimensions:</i> Footprint 28"W x 24"D, 16.5" vertical travel for work surface <i>Construction details:</i> Separately adjustable monitor shelf 16"W x 9.25"D with 6.5"H rise, base plate 17.5"W x 16"D; supports up to 34 lbs; four colors Some assembly needed; assembly adds \$19.00	Adjustable work surface; retractable keyboard tray <i>Overall dimensions:</i> Footprint 36"W x 18.5" D, 16.5" vertical travel <i>Construction details:</i> Work surface and keyboard platform move in tandem. Depth with keyboard tray extended 24"-31.5", keyboard tray 30"W x 10.5"D, adjusts from level to 25 degree negative tilt; steel with powder coat finish. Black/white combination only.
List price/each	\$380.58	\$395.00	\$499.00	\$590.00
Shipping	Included in price	Included in price	Included in price	Included in price
Total price/each	\$380.58	\$395.00	\$499.00	\$590.00
Dash chair	Lowest priced vendor	2nd highest priced vendor	CI	Highest priced vendor
Specifications	Task chair with lumbar support <i>Overall dimensions:</i> 27.25"W x 25"D x 38"-41.9"H, seat height 18"-22", seat 20.5"W x 19.25"D <i>Construction details:</i> Mesh back, upholstered seat; pneumatic height adjustment; tilt tension adjustment; adjustable height padded arms; heavy duty nylon base; dual-wheel casters 5-year limited warranty. Assembly not available	Task chair with adjustable lumbar support <i>Overall dimensions:</i> 28.4"D x 28.4"W x 43.1"H, seat height 17.5"-22.5" <i>Construction details:</i> Mesh back, upholstered seat; pneumatic height adjustment; tilt tension adjustment; adjustable height arms; five-star base of reinforced resin 5-year limited warranty. Assembly adds \$54.71	Task chair with adjustable lumbar support <i>Overall dimensions:</i> 37"-41.75"H; seat height 17"-21.75"; seat 20.5"W x 19.5"D; back: 20"W x 20"H <i>Construction details:</i> Mesh back, upholstered contoured seat; pneumatic height adjustment; tilt tension adjustment; adjustable height padded arms; heavy-duty five wheel nylon base 5-year limited warranty Comes fully assembled	Task chair with adjustable lumbar support <i>Overall dimensions:</i> 27.25"W x 25.75"D x 42"-46.25"H; seat: 20"W x 19.5"D; back: 22.5"W x 25.75"H <i>Construction details:</i> Mesh back, upholstered seat; pneumatic height adjustment; tilt tension adjustment; adjustable height arms; five wheel metal base Lifetime warranty Assembly not available
List price/each	\$143.99	\$148.99	\$264.00	\$319.00
Shipping	Included in price	Included in price	Included in price	\$47.00
Total price/each	\$143.99	\$148.99	\$264.00	\$366.00

FURNITURE INDUSTRY, continued

Mobile filing pedestal	Lowest priced vendor	2nd highest priced vendor	CI	Highest priced vendor
Specifications	Mobile filing cabinet with three lockable drawers (2 box, 1 file) <i>Overall dimensions:</i> 15"W x 23"D x 31.5"H <i>Construction details:</i> Metal; full-length recessed drawer pulls; four casters, two locking (optional stationary glides incl); counterweight added; four colors	Mobile filing cabinet with three lockable drawers (2 box, 1 file) <i>Overall dimensions:</i> 15"W x 22 7/8"D x 27 3/4"H <i>Construction details:</i> Steel; full extension on box drawers; four hidden casters; counterweight added; one color	Mobile filing cabinet with three lockable drawers (2 box, 1 file) <i>Overall dimensions:</i> 15"W x 22"D x 27.75"H <i>Construction details:</i> 22-gauge steel; full extension drawer guides; four twin-wheel hooded casters, two locking; fifth wheel for counterbalance; five colors	Mobile filing cabinet with three lockable drawers (2 box, 1 file) <i>Overall dimensions:</i> 15"W x 22 7/8"D x 28"H. <i>Construction details:</i> Steel; 90% file drawer extension, 75% box drawer extension; pencil tray included; four casters (front fixed, back casters swivel); counterweight added; one color
List price/each	\$207.38	\$194.99	\$297.00	\$264.80
Shipping	Included in price	\$29.99 *	Included in price	\$67.00
Total price/each	\$207.38	\$224.98	\$297.00	\$331.80

* Vendor also offers free in-store pick up, but we included shipping costs in our total price.

Navigator chair	CI	Lowest priced vendor	2nd highest priced vendor	Highest priced vendor
Specification	Nesting guest chair with arms and casters <i>Overall dimensions:</i> 33"H; seat 17.5"W x 17"D x 18"H; back 18"W x 16"H <i>Construction details:</i> Frame and legs 13-gauge tubular carbon steel, chrome plated or powder coated; upholstered foam seat cushion; articulating nylon polymer back with 1/2" upholstered foam; injection molded polymer armrests; barrel carpet casters; 3 frame colors, 2 plastic colors, 130 fabric choices Limited 5-year warranty	Nesting guest chair with arms and casters <i>Overall dimensions:</i> 23.5"W x 20.5"D x 32.2"H; seat 17.5"W x 17.2"D x 19.5"H; back 17.5"W x 10.5"H <i>Construction details:</i> Steel frame construction; upholstered back and seat; 4 casters; 9 fabric colors Lifetime warranty	Nesting guest chair with arms and casters <i>Overall dimensions:</i> 26"D x 36"H x 26"W; back width 19.25"; seat dimensions not noted <i>Construction details:</i> Tubular steel frame; upholstered back and seat; backrest reclines 5°; dual-wheeled casters; glides available at additional cost; 2 frame colors, 13 fabric choices Lifetime warranty	Nesting guest chair with arms and casters <i>Overall dimensions:</i> 23.5"W x 24.25"D x 32.25"H; seat 17.25"W x 18.5"D x 18"H; back dimensions not noted <i>Construction details:</i> 13-gauge steel tube frame; upholstered back and seat; carpet or hard floor casters; 2 frame colors, 3 shell colors, 11 fabric colors 15-year warranty
List price/each	\$249.00	\$189.00	\$378.30	\$473.59
Shipping	Included in price	\$89.00	Included in price	Included in price
Total price/each	\$249.00	\$278.00	\$378.30	\$473.59

TEXTILE INDUSTRY

Pillowcase	CI	Lowest priced vendor	2nd highest priced vendor	Highest priced vendor
Specifications	Percale pillowcase 50% cotton / 50% polyester 31"L x 20"W 180-thread count White only Sold individually	Percale pillowcases 60% cotton / 40% polyester 30"L x 20"W 200-thread count White only Sold in sets of two	Percale pillowcase 100% cotton 32" L x 20" W 300-thread count Comes in 13 colors Sold in sets of two	Percale pillowcase 40% polyester / 60% cotton 30" L x 20" W 220-thread count White only Sold in sets of two
List price/unit	\$2.45/pillowcase	\$7.29/set	\$16.09/set	\$24.99/set
Shipping	Included in price	\$6.89	\$4.00	\$4.95
Total price/2 pillowcases	\$4.90 *	\$14.18	\$20.09	\$29.94

* Since all other vendors we found sell pillowcases in sets of two, we multiplied the price of one CI pillowcase by two to get the price for two pillowcases if CI were to sell it in such quantity.

Washcloth	CI	Lowest priced vendor	2nd highest priced vendor	Highest priced vendor
Specifications	White washcloth 12" x 12"; 86% polyester, 14% cotton; cam border Sold individually	White washcloth 12" x 12"; polyester/cotton blend Sold by the dozen	White washcloth 12" x 12"; 100% looped-terry cotton; reinforced edges Sold in packs of 24	White washcloth 12" x 12"; polyester / cotton base with cotton loops; cam border; ring spun; hemmed edges Sold by the dozen
List price/unit	\$.64/washcloth	\$8.98/dozen	\$13.95/24 pack	\$12.12/dozen
Price/washcloth	\$0.64	\$0.75	\$0.58	\$1.01
Shipping	Included in price	Unknown ◊	\$8.06	\$10.48
Total price/dozen	\$7.68 *	\$8.98	\$15.04 *	\$22.60

* Since two vendors we found sell washcloths in packs of 12, we divided or multiplied the price of the other vendor and CI to get the price for 12 washcloths if they were to sell them in such quantity.

◊ We could not determine shipping charges.