



Performance Audit

Correctional Industries: Planning, pricing and market share

One of the ways the Washington State Department of Corrections attempts to reduce the number of inmates returning to prison after release is through its Correctional Industries (CI) program. This program serves 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.

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 employed 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 that addresses the questions listed in the sidebar
- Develop a formal process to assess demand for job skills
- Improve processes for getting customer feedback
- Establish additional performance measures to assess how well it is meeting its mission

Key business planning considerations

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

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

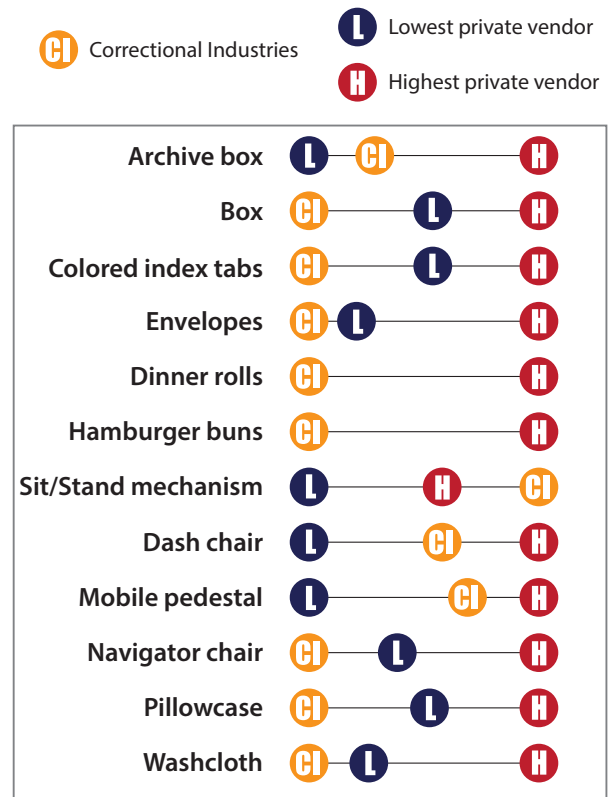
State law requires that CI price its Class II products and services with the objective of reducing public support costs. To achieve this requirement, CI agrees it must price its products competitively. Our review of 12 high-volume products showed that only one was priced higher than similar products offered by other vendors we reviewed. However, we found CI has not formalized an agency-wide pricing policy as leading practices recommend. A formal, agency-wide 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 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.

Most of the products we price-checked fell below or within the 'comparable price' range



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

Recommendations to the agency

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

Recommendations to the Legislature

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