



## 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,

David Schumacher  
Director  
Office of Financial Management

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).

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**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?
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**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.
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**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.*
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**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.*

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**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.*
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**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.*

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**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.*

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**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.*
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